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The International Politics of Oil

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Notes on Contributors	2
Editorial Introduction: The International Politics of Oil Alexander Betts, Matthew Eagleton-Pierce and Anne Roemer-Mahler	3
The Politics of Corporate Social Responsibility and the Oil Industry Peter Utting and Kate Ives	11
Climate Change and Collective Action: Troubles in the Transition to a Post-Oil Economy Joshua Busby	35
The United States, Hegemonic Strategies and World Oil Simon Bromley	56
The Oil-Foreign Policy Nexus: A Response to Simon Bromley Steffen Hertog	71
Oil, War and Forced Migration in Sudan Leben Nelson Moro	75
'Oil, War and Forced Migration in Sudan': A Response Richard Barltrop	91
Angola's Rise to Regional Power: A Theoretical Approach to Oil and Conflict in Central-Africa Nils Duquet	96
Oil in Geopolitics An Interview with Fareed Mohamedi	113
Book Reviews	120

2 Notes on Contributors

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Editorial Introduction: 'The International Politics of Oil'

3

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The contemporary global economy is premised upon energy consumption. Industry and transportation lie at the heart of economic development, and both have come to depend upon sustainable access to hydrocarbons. Alongside gas and coal, oil is particularly significant as a source of energy. While other fossil fuels can be used in electricity production, there are few reliable substitutes for oil in transportation, and it continues to be widely used in industrial production. Demand for oil was around 75 million barrels per day (bpd) in 2000, and the International Energy Agency (IEA) estimates that it may nearly double by 2030.¹ There have long been concerns about whether the current rate of consumption is sustainable from an environmental and economic perspective. The so-called 'peak oil' debate has deliberated over the point at which the world would reach its highest point of oil production, claimed to represent the half-way point of total exploitation of global reserves.² With diminishing supply and rising prices, ongoing oil dependency is widely recognised to have serious economic consequences.³ Significantly, however, the implications of ongoing consumption, production, and extraction of oil go far beyond economics; they are profoundly political.

The political consequences of dependence on oil are increasingly evident in a range of different ways. In the context of the 'war on terror,' the United States' (US) presence in Afghanistan and Iraq has led to questions about the extent to which securing access to oil has motivated these conflicts and U.S. foreign policy more broadly. Meanwhile, increasing evidence about the potential effects of climate change has led to growing calls to reduce dependency on fossil fuels through greater energy efficiency and the use of renewable energy sources. This debate on managing the global commons has likewise been deeply political, dividing the world between supporters and detractors of the Kyoto Protocol. Oil has also been identified alongside other natural resources as a potential source of conflict. Although the causal relationship remains contested, the civil conflicts in Angola, Sudan, Nigeria, and Indonesia, for example, have been linked to competition for oil revenues.

A. Betts, M. Eagleton-Pierce & A. Roemer-Mahler, 'Editorial Introduction: 'The International Politics of Oil,' *STAIR* 2, No. 1, (2006): 3-10.

Furthermore, contemporary politics is not simply about the state but is about the broader political economy. Due to the enormous concentration of capital in the hands of relatively few companies and the strategic importance of energy for every government, the oil industry has often been used to illustrate the changing relationship between the state and business. Large private oil corporations, it is claimed, hold immense power to influence public policy concerning, for example, trade and investment policies, as well as the broader regulatory environment.

All of these issues highlight the diversity and complexity of the international politics of oil. In this issue, a range of theoretical perspectives explore the influence of oil in four distinct areas: foreign policy, the environment, development and conflict, and state-business relations.

Foreign Policy

Throughout the second half of the 20th century oil has been at the heart of foreign policy. The Suez Crisis in 1956, the 1973 Arab oil embargo, the consequences of the Iran-Iraq War in 1980, and the two Gulf Wars in 1990 and 2003 most visibly illustrate how oil has been implicated in international relations.⁴ Import-dependent states have been concerned with maintaining sustainable, secure access to oil at low prices, whereas oil exporting states, mainly in the developing world, have been concerned with balancing the desire to uphold prices and revenues while maintaining market share. This relationship between importing states and Organisation of Petroleum Exporting Countries (OPEC) states has been highly strategic and political. With the states that comprise OPEC able to collectively bargain on price and production levels, the politics of oil has become a strategic game with strong implications for foreign policy.⁵ Numerous developing countries such as Libya and Venezuela have used the presence of oil in their territories as a means to assert their authority in world politics through so-called 'petronationalism.' OPEC's system of quotas and collective bargaining has empowered many of these states to leverage political capital in other areas through their strategic significance as supply or transit routes.

Meanwhile, a number of powerful states, including the US, China, and France, have used diplomatic relations and sometimes even military power as a means to guarantee energy security. In particular, U.S. foreign policy during and after the Cold War in the Middle East, parts of Latin America and, increasingly, the Caucasus and Central Asia has been consistently linked to the political economy of oil. Yet rarely has this

causal link been adequately substantiated to show a direct relationship between U.S. foreign policy and the 'oil motive.' Against the backdrop of claims that the most recent Iraq War was motivated by oil, Simon Bromley's article explores the way in which the oil industry has influenced U.S. foreign policy. He argues that a hegemonic strategy to uphold the capitalist system has driven U.S. foreign policy in the Middle East. Significantly, though, the article places the relationship between the large oil companies, the U.S. government and foreign policy in historical context, allowing it to demonstrate and nuance the different ways in which the overall Middle East strategy has emerged and varied in different parts of the region and over time. Steffen Hertog's response piece critically examines the causal relationship between oil and the U.S. government's Middle East policy. It explores a range of historical and geopolitical factors that Hertog claims make the relationship between oil and U.S. foreign policy less than straightforward. Meanwhile, in his interview with Nahid Siamdoust, Fareed Mohamedi implicitly challenges Bromley's central claim. Examining the motives underlying the invasion of Iraq and U.S.-Saudi relations, he concludes that the interests of the oil industry and concern with energy security have been peripheral to U.S. Middle East policy making. However, looking at the relationship between foreign policy and oil the other way around, he argues that U.S. relations with for example Russia, Iran and Venezuela have had a significant, and often negative, impact on the oil industry.

Development and Conflict

The politics of oil provides a fascinating case study for exploring North-South relations. Although the world's biggest producers include the US, Russia, and Norway, the biggest exporting countries are from the developing world. The main importing countries have, until the recent emergence of China and India as major importers, been economically developed countries. Structurally, as the article by Nils Duquet highlights, this relationship has placed many oil exporting states on the periphery of the global economy. A number of developing countries are largely dependent on oil exports. Saudi Arabia, Algeria, Sudan, Nigeria, Angola, and Venezuela, for example, rely on oil for the majority of their export income. Given the rankings of these states in United Nations Development Programme's Human Development Index (HDI), the benefits of being an oil rich developing country are somewhat ambiguous.⁶ Dependency on oil export revenue has, for example, been identified as a potential 'curse'

rather than a blessing for development.⁷ To illustrate this, economists have pointed to the notion of so-called ‘Dutch disease,’ whereby often a large revenue in one sector of the economy can raise the exchange rate, so reducing the competitiveness of other sectors of the economy and prohibiting diversification. It has also been argued that dependency on a single commodity is an unsustainable route to development given the likelihood of declining terms of trade.⁸

However, politics rather than simple economics perhaps best explains the ‘resource curse’ argument. Indeed the precise implications of oil for development seem to depend very much on the nature of the state. Duquet, for example, argues that oil exporting states are often able to rely on external income to sustain them, rather than taxation, so insulating them from society. Without the need for accountability to the wider population, the state can survive on ‘rents’ captured from the oil industry. This can create ‘petro-states’ subject to corruption or allow states to maintain patronage networks that undermine democratic accountability.⁹ It is within this context that competition for the resources of the state has been implicated in fuelling conflict. Work by econometricians implies that dependence on primary commodities is a significant risk factor for internal conflict.¹⁰ However, the precise causal relationship between oil and conflict needs to be carefully teased out within its broader historical and political context.

The articles by Leben Nelson Moro and Nils Duquet provide case studies exploring the relationship between oil and conflict in Sudan and Angola, respectively. Moro’s paper, based on extensive fieldwork in Sudan, argues that oil exploration in Southern Sudan has been the major cause of conflict between the government and the Sudanese People’s Liberation Army (SPLA) since the early 1980s. His detailed historical analysis highlights the complicity of government elites, the SPLA, international oil companies, and the wider international community in the human rights abuses and forced displacement that have taken place in the region. Richard Barltrop’s response piece challenges Moro’s central argument as mono-causal, arguing that the ‘greed not grievance’ argument implicitly made by Moro is overly reductionist. He argues that oil is but one manifestation of wider grievance about political inequality within the country. Furthermore, he questions whether oil has not, conversely, played a positive role in motivating the peace process between 2002 and 2005. Meanwhile, Duquet’s piece highlights how the Movimento Popular de Libertação de Angola (MPLA) run state was able to maintain its control of power with a narrow support base and fund both its civil war and military interventions within the Democratic Republic of the Congo through controlling oil revenues. Building a theoretical perspective,

Duquet argues that dependency theory, in conjunction with the 'paradox of plenty' theory can go some way towards improving our understanding of the relationship between conflict and oil.

7

The Environment

Climate change has been widely accepted to have serious environmental and social implications on a global scale. The threat of drought, rising sea levels, crop failure, and species extinction, for example, have led many governments to acknowledge the need for a reduction in fossil fuel emissions, through a combination of greater energy efficiency and investment in renewable energy sources. However, the global nature of the causes and consequences of climate change requires that attempts to resolve the problem are based upon international political cooperation. The Kyoto Protocol has been the major instrument adopted to address these concerns, aiming to cut greenhouse gas emissions from their 1990 levels to fixed targets between 2008 and 2012. However, the failure of countries such as the US and Australia to sign the Protocol has limited its scope and effectiveness; the disappointing rate of reduction in current emissions levels has led to disillusionment with the Protocol.¹¹

Joshua Busby's article draws upon public goods theory to argue that the failure to move towards a post-oil economy is a form of collective action failure. Reducing fossil fuel emissions is a global public good, he claims, from which all states benefit irrespective of which country bears the cost of reducing emissions. Yet, crucially, Busby argues that states' contributions to the reduction of fossil fuel emissions are not a pure public good. Instead, states may have self-interested reasons to work independently to reduce emissions because of the commercial opportunities it creates for companies based in those states. In particular, under the right domestic and global institutional arrangements, companies (and hence also states) may be able to profit from developing cleaner technologies. He argues that global institutional arrangements should provide firms with commercial incentives for technological innovation. The European Union emission trading scheme, which allows firms to trade emission allowances, accomplishes this as firms that reduce their emissions can sell their allowances on the open market. Busby also argues that promoting flexibility beyond the rigidity of the Kyoto Protocol can further decrease the rate of greenhouse gas emissions. In particular, he claims, institutional arrangements that, for example, guarantee intellectual property rights can induce states to promote innovation and technology transfer. He uses this argument to support consideration of alternatives to

Kyoto such as the U.S. government's proposed Asia-Pacific Partnership on Clean Development and Climate (APPCDC), which is based upon flexibility and the promotion and transfer of clean technologies.

State-Business Relations

The oil sector represents a fascinating area for assessing the changing nature of state-business relations. Companies such as Exxon Mobil wield enormous political influence within states that require external investment in order to exploit reserves, and the long-term nature of contracts give them a significant stake within the provision of public goods and regulation within the state. Haliburton and TotalFina are amongst the many private oil companies with close links to politics, which have been widely documented. Furthermore, oil continues to be an industry in which companies remain nationalised or have a strong parastatal character. Governments own some of the largest oil companies in the world, for example: PDVSA, Saudi Aramco, and the Iranian National Oil Company. This close relationship with the state makes oil a particularly political industry. When national oil companies have transnational reach, their state governments can use them as a vehicle for petronationalism. The emergence of Sinopec and China National Petroleum Corporation (CNPC) in China and Oil and Natural Gas Corporation (ONGC) in India, for example, have allowed those states to acquire stakes in oil reserves abroad. Both CNPC and ONGC have invested heavily in the Greater Nile Consortium in Sudan.

One manifestation of the changing nature of state-business relations in the oil economy is the leading role that some energy companies have taken in investing in Corporate Social Responsibility (CSR) activities, such as social and environmental auditing and community development projects. However, the profit motive has inevitably rendered CSR a rather ambiguous program. Barltrop touches upon the contradiction of CSR practices in Sudan, pointing to how oil companies perversely used 'community projects' to mitigate being implicated in human rights violations. Peter Utting and Kate Ives' article explores the motivation and origins of CSR in the oil industry in much more detail. Taking as its starting point a Gramscian understanding of the hegemonic strategising of companies seeking to co-opt civil society pressure groups, it argues for a nuanced understanding of CSR. In particular, it highlights the diversity of responses of different companies within the oil industry and attempts to explain this variation. It does so by exploring factors within the firm,

such as the mode of internalisation of CSR within companies, and factors external to the firm, such as the institutional and political context in which the companies operate. In showing the significant role of the institutional, political, and regulatory environment, the article highlights the possibility for society and politics to 'recapture the state' from strong business influence.

Conclusion

The papers are diverse and wide ranging, touching upon an array of seemingly unrelated themes from very different theoretical perspectives. Collectively, however, they highlight two things. Firstly, the range of approaches taken in this issue to analyse the international politics of oil highlights that the pursuit of sustainable and secure energy supplies is at the heart of world politics, intersecting with just about every significant contemporary global challenge. That a special edition on the international politics of oil can cover so much ground is an indication of how wide ranging the consequences of ongoing hydrocarbon dependence are and the challenges this presents for humanity. Secondly, and perhaps most significantly, it shows how much can be learnt about the changing nature of politics through the study of oil. Because oil represents a crucible for exploring the intersection of political economy, development, foreign policy, and international cooperation, it offers a starting point for asking more profound questions about the changing nature of contemporary world politics and how it should be conceptualised by academia. In that regard the papers in this special edition are as much about 'international politics' as they are about the 'international politics of oil.'

Notes

¹ Toby Shelley, *Oil: Politics, Poverty and the Planet* (London: Zed Books Ltd, 2005), 7.

² Bilaal Abdullah, *Peak Oil Paradigm Shift: The Urgent Need for a Sustainable Energy Model* (London: Medianet, 2005); and Kenneth S. Deffeyes, *Beyond Oil: The View from Hubbert's Peak* (New York: Hill and Wang, 2005), 3-12.

³ Paul Roberts, *The End of Oil: On the Edge of a Perilous New World* (New York: Houghton Mifflin, 2004), 44-65.

⁴ Shelley, *Oil*, 83.

⁵ Jahangir Amuzegar, *Managing the Oil Wealth: OPEC's Windfalls and Pitfalls* (London: I.B. Tauris, 2001), 1-22.

⁶ Jeffrey Sachs and Andrew Warner, 'Natural Resource Abundance and Economic Growth,' *NBER Working Paper*, no. W5398 (1995).

⁷ Alan Gelb et al., *Oil Windfalls: Blessing or Curse?* (Washington DC: World Bank, 1988).

⁸ Christine Ebrahim-Zadeh, 'Dutch Disease: Too Much Wealth Managed Unwisely,' *Finance and Development* 40, no. 1 (2003): 50-51.

⁹ Michael Ross, 'Does Oil Hinder Democracy?,' *World Politics* 53, no. 3 (2001): 325-361.

¹⁰ Paul Collier and Anke Hoeffler, 'On Economic Causes of Civil War,' *Oxford Economic Papers* 50, no. 4 (1998): 563-573; and Paul Collier and Anke Hoeffler, 'Greed and Grievance in Civil Wars,' *Oxford Economic Papers* 56, no. 4 (2004): 663-695.

¹¹ See, for example, Hans Joachim Schellnhuber et al, eds., *Avoiding Dangerous Climate Change* (Cambridge: Cambridge University Press, 2006).

The Politics of Corporate Responsibility and the Oil Industry

11

PETER UTTING AND KATE IVES

The 1980s and 1990s were not good years for the reputation of Big Oil. Exposés of malpractice in relation to the environment, human rights, local communities and conflicts were rife. Against this backdrop, several North American and European oil companies embarked on a makeover in order to win friends and placate enemies. They did this not only through the proverbial use of public relations and philanthropy but also by proactively promoting corporate social responsibility (CSR).

This concept generally conveys two main ideas. First, corporations should go beyond both the minimalist standards laid down in law and the piecemeal interventions that characterise philanthropy by adopting a range of voluntary initiatives aimed at minimising malpractice and improving their social, environmental and human rights performance and impacts. And, second, modern, well-run companies need to be more responsive to the concerns of multiple stakeholders and aspects of management that have to do with risk and reputation management and organisational learning.

This paper examines the evolution and state of CSR in the oil industry, focusing on initiatives and institutions related to environmental management, climate change, human rights, community development and revenue transparency. We explain why some companies have taken a leadership role in CSR, as well as why there have been significant variations in response both within and between companies. Particular attention is paid to political and institutional dimensions, notably the role of transnational activism and civil society organisations, the 'hegemonic' strategies of organised business interests, and broader institutional and policy contexts associated with varieties of capitalism analysis. The paper concludes with a discussion on corporate accountability, identifying certain regulatory approaches and political developments that might enhance the contribution of oil companies to social and sustainable development.

Why did the CSR agenda emerge in the 1980s and take off internationally in the 1990s? And, why were several oil companies at the forefront of these developments?

One of the reasons why CSR has attracted so much attention is that it is being propelled by two powerful sets of actors or movements: one comprising non-governmental organisations (NGOs), trade unions and various social movements concerned with sustainable development, labour, human rights, corruption and 'alternative globalisation'; the other involving organised business interests and policy makers concerned with opposition to economic liberalism and cognizant of the need for institutional arrangements that can minimise and mitigate the perverse effects of economic liberalisation.

The former 'movement from below' garnered force not only through the rapid growth of the NGO sector and the environmental movement in the 1980s but also through the rise of transnational activism and new modes of communication, organisation, mobilisation and advocacy involving the Internet, networking, coalitions, international campaigns and transnational advocacy networks.¹ Their voice was increasingly heard by the world's leaders and elite both through protest actions, literally on their doorsteps—e.g., Seattle, Prague, Genoa and Davos—as well as through engaging collaboratively with mainstream consultative and policymaking processes such as those associated with United Nations (UN) Summits.

Such activism took early aim at the large oil companies that were implicated in several high-profile disasters and scandals. This was the era of the Exxon Valdez oil spill off the Alaskan coast (1989) accusations suggesting the complicity of Shell, Unocal² and Total in human and labour rights abuses in Nigeria and Burma and Shell's clash with Greenpeace over the disposal of the Brent Spar oil rig (1995). The issue of the extent and dynamics of corruption in the oil industry in Africa and elsewhere—and the role of oil companies like Talisman Energy, Unocal, Elf³ and British Petroleum (BP) in conflict zones such as Angola, Sudan and Colombia—also emerged as high-profile concerns of activists and policymakers. Following the Millennium Declaration and the World Summit on Sustainable Development (WSSD), which focused the attention of the international development community on poverty reduction and partnerships for development, oil companies also were asked to revisit the question of why their operations often take place in contexts

of extreme local poverty and the poor economic performance of host developing countries.

Some have described the upsurge of activism associated with globalisation and liberalisation more generally—and CSR more specifically—in terms of a ‘counter-hegemonic’ or emancipatory social project⁴ in which companies are being subjected to, and are responding to, increasing levels of activism and the convergence of disparate struggles and concerns. This is not simply because of the growing strength of civil society organisations and activism but because ‘the more the public domain is privatised, the more that the private is politicised and becomes a matter of public concern.’⁵

In reality, civil society perspectives on CSR are divided, and numerous intra-civil society tensions exist. Furthermore, civil society actors, organisations and networks are engaged in myriad forms of ‘civil regulation’ involving a variety of confrontational and collaborative tactics.⁶ These include:

- watchdog activities by groups such as Oilwatch, Corpwatch, Greenpeace and Public Eye on Davos to denounce and publicise malpractice;
- consumer boycotts against companies like Shell, Exxon and Unocal;
- shareholder activism, which involves filing resolutions at Annual General Meetings (AGMs) demanding that management address certain issues, as occurred, for example, in relation to the involvement of Atlantic Richfield Company (ARCO) in Burma;⁷
- legal activism both at home and in host countries, through which companies or governments are prosecuted for malpractice as, for example, in the case of Shell, for its complicity with pesticide poisoning in Nicaragua, or the government of Colombia, for allowing exploration by Occidental Petroleum in the territory of the U’wa people;
- testing and using complaints procedures contained in voluntary CSR codes or guidelines, such as in the case of the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Corporations, in which civil society organisations associated with the OECD Watch network have raised concerns about the activities of BP and the Baku-Tbilisi-Ceyhan (BTC) pipeline in Georgia and Turkey;⁸
- critical research by academic and NGOs examining malpractice and the limits of so-called best practice;

- advocacy for policy change by organisations and networks such as the U.K. Corporate Responsibility Coalition (CORE), the Clean Clothes Campaign, and Global Exchange;
- dialogue and service provision by NGOs that collaborate with companies and CSR institutions to provide advice and technical assistance related to best practice, standard-setting, reporting, monitoring and certification;
- partnerships involving NGOs, local grassroots organisations and companies to design and implement social, environmental and development projects; and
- collective bargaining, Global Framework Agreements (GFAs)⁹ and campaigns by trade union organisations to improve labour standards and conditions.

Many of the professional and service-oriented NGOs that were influential in structuring the mainstream CSR agenda assumed certain characteristics that shaped their approaches and the reformist nature of their demands and proposals. Not only 'neo-liberals,' but also many activists and NGOs were critical of what they saw as state failure, and they sought a 'third way' involving voluntary or softer regulatory approaches, as opposed to 'command and control' regulation. They also stressed the role of collaboration and partnerships rather than confrontation.¹⁰ Compared to corporatist entities such as trade unions, which had been one of the principal agents of change of previous decades, NGO activism in the 1980s and 1990s was relatively fragmented. Presenting a common, more powerful, civil society front was difficult given the considerable tensions that existed between NGOs and trade unions, which were concerned with the colonisation of the world of labour standards and labour rights by organisations that were unaccountable to workers. North-South tensions were also apparent, given the reality or perception that CSR was very much a northern agenda that had not been shaped through the effective participation of southern organisations and actors. The relative isolation of many NGOs from mainstream democratic politics also meant that this sector of civil society was not empowered through its relations with political parties, as the labour movement had been. Furthermore, the types of demands put forward, as well as the tactics used, were conditioned by the tendency for many NGOs to become involved in the burgeoning CSR industry through service delivery and consultative and commodified activities. There was, in fact, a blurring of the distinction between an important sector of 'civil society' and 'business.'¹¹

The second grand constituency promoting CSR-organised business interests included several of the largest oil companies. As indicated in the following section, they responded quickly to the pressures and contexts outlined above, not only through vigorous advertising but also by adopting codes of conduct, strengthening environmental management systems, promoting dialogue with NGOs, investing in renewables, increasing their support for local community projects, producing sustainability reports, certifying environmental management systems and joining or collaborating with various national and international CSR initiatives and institutions.

A common reaction of some sectors of civil society has been to dismiss such CSR actions as 'greenwash,' a term coined at the time of the UN Conference on Environment and Development (UNCED), held in Rio de Janeiro in 1992, to criticise large corporations for grossly exaggerating their environmental credentials.¹² These companies included Shell and others that had joined the Business Council for Sustainable Development (BCSD), established in 1991 to craft a coherent business response to environmental issues and influence the outcome of UNCED.¹³ In the 1990s, watchdog organisations like Corpwatch regularly bestowed Greenwash awards on oil companies that had tried to position themselves as CSR leaders. More recently, oil companies have featured prominently in the Public Eye Awards for malpractice, granted at the annual civil society event in Davos that coincides with the World Economic Forum.

Revelations of greenwash have been useful for maintaining the spotlight on malpractice and countering attempts by large corporations to deflect opposition through tokenism, advertising and public relations. But, the notion of greenwash tends to suggest that business simply is reacting defensively and that it has no genuine interest in CSR apart from reputation management.

In contrast, many corporations, business associations and other actors argue that there is a solid business case for CSR, which is associated with 'win-win' strategies; doing good environmentally and socially can simultaneously improve a company's competitive advantage, reduce costs, enhance staff morale and reduce staff turnover.¹⁴ Furthermore, it is part and parcel of sound management in the era of globalisation in which innovation is essential, short and long-term risks need to be anticipated and addressed and companies need to learn and use knowledge more effectively. New concepts and theories deriving from management studies and economics have reinforced these positions. These include stakeholder

theory, which correlates the health of a company with its responsiveness to the concerns not only of shareholders but of multiple stakeholders, and new institutional economics, which highlights the need for firms to pay more attention to transaction costs. Meanwhile, from international relations comes the idea that governance in the complex era of globalisation needs to be multi-played, with collaboration, partnerships and social learning all key features of 'good governance'.¹⁵

These explanations of CSR are relevant but need to be complemented by yet another, which recognises that CSR is very much a part of a political agenda in the Gramscian sense.¹⁶ As Gramsci's concept of hegemony reveals, the longevity and stability of capitalism is related to the capacity of ruling elites to govern not simply through force, but through consensus and by addressing issues of concern to multiple actors. Hegemony involves not only accommodating certain oppositional demands, but also exercising moral, cultural and intellectual leadership.¹⁷ CSR is a classic example of such a hegemonic strategy. So-called CSR companies are not simply reacting defensively, but are proactively trying to shape and lead the CSR agenda.¹⁸ Such an approach was particularly apparent in the build up to, during and following UNCED. Business interests organised and mobilised effectively to influence the outcome of the conference. In the process, they were able to fend off regulatory threats through the promise of voluntary initiatives and corporate self-regulation. Ten years later, active business mobilisation around the WSSD managed to put the idea of public-private partnerships firmly on the international agenda, and, in the process, divert attention from calls for 'corporate accountability' and stronger regulation of transnational corporations (TNCs). Corporate proactivity in relation to CSR is particularly evident in relation to big business engagement with multi-stakeholder initiatives. These and other consultative processes also open up spaces for institutional capture and allow organised business interests to shape the public policy process.¹⁹

The above analysis of a dual movement characterised by 'pressures from below' and hegemonic strategising and manoeuvring to fend off threats and gain influence would suggest some scope for convergence, with laggards gradually coming on board the CSR bandwagon. This trend would seem to be relevant particularly for oil companies from the OECD countries. The learning processes, networking and corporate participation that are features of the rapidly expanding 'epistemic communities' that characterise the world of CSR also reinforce the tendency for incremental change. Such convergence has been noted, for example, in the case of Exxon, which was overtly hostile to climate change issues in the 1990s but has since softened its position.²⁰

Referring to the case of the oil industry as a whole, others scholars suggest that company responses to CSR are likely to remain extremely diverse given the complex array of factors that shape company policy and performance.²¹ Indeed, divergence may be occurring, with the large western corporations reinforcing their CSR role and image to gain competitive advantage, and other, smaller companies or national oil corporations from non-OECD countries using the 'business-as-usual' approach also to position themselves favourably in the market.²² Such would seem to be the case, for example, of some of the state-owned oil companies such as Petronas (Malaysia), the China National Petroleum Corporation and India's national oil corporation, which acquired the assets of Western corporations that had to withdraw from developing countries because of pressures resulting from their association with human and labour rights abuses.

The interplay of civil society pressures and influences and hegemonic strategising and leadership explains, to a large extent, both the vibrancy and rapid evolution of the CSR agenda since the early 1990s. This evolution is apparent in relation to the expanding number of issues on the agenda, CSR instruments and national and international institutions. As a result of all these developments, we see some broadening and deepening of CSR in terms of the numbers of companies and sectors involved, and more rigorous CSR standards and implementation procedures. Nevertheless, the engagement of companies with the CSR agenda and CSR performance remains highly fragmented, in terms of the number of companies that overtly associate themselves with CSR policies and practices, the meaningful application of CSR standards within corporate structures and the contribution of CSR to development.

CSR and the Oil Industry

As in any industry, the engagement of large oil companies with CSR can be judged, to some extent, by their adoption of codes of conduct, reporting practices and interaction with leading CSR institutions. In the aftermath of two major setbacks in 1995, Shell proved to be an initial leader, revising its 1976 Statement of General Business Principles to include reference to sustainability and human rights. Most of the oil majors followed suit and now have their own company code of conduct. Many also subscribe to relevant industry or civil society-led voluntary regulation across a range of issues. In the social arena, the Global Sullivan Principles and the Voluntary Principles on Security and Human Rights are particularly relevant to the oil industry. The latter were developed by the International Business

Leaders Forum in 2000 and refer to issues that should be considered in risk assessments, as well as guidelines on working with public security organisations and contracting private security firms. They have been signed by 16 oil corporations, including most of the larger companies, with the notable exception of Total.

Most of the oil majors now produce annual sustainability or CSR reports. Shell was the first in the industry to produce a report that considered social and community responsibility, through the publication of 'People and the Environment: Annual Report 1996' by Shell Nigeria, and subsequent reports by Shell, including the seminal 'Profits and Principles,' published in 1998.²³ A survey by KPMG, the network of professional firms providing audit, tax and advisory services, found that corporate responsibility reporting by the oil and gas companies listed in the top 250 corporations of the Fortune 500 rose from 58 percent in 2002 to 80 percent in 2005.²⁴ In fact, the oil and gas sector is now the third largest reporter on social and environmental issues, having produced just under 700 reports since 1992.²⁵ The considerable criticism that has emerged about glossy, superficial reporting has prompted some improvements in the quality of reporting. An increasing number of companies are applying reporting standards such as those developed by the Global Reporting Initiative (GRI). However, of the 26 oil or oil-related companies²⁶ that report using the GRI guidelines, only nine are said to be 'in accordance,' which denotes a more systematic application of the guidelines.

Several oil companies are closely associated with high profile CSR institutions, such as stock market sustainability or ethical indexes, the UN Global Compact (UNGC)²⁷, and the GRI. BP, Shell and Statoil are Organisational Stakeholders of the GRI; BP, Total and Shell are among the top 20 largest components of the Dow Jones Sustainability Index (DJSI); and BP and Total are in the top ten of the largest components in the FTSE4Good Global. The criteria to qualify for these indexes are set higher for 'high impact' industries, such as oil. They include the existence of environmental management systems, a public commitment to internationally recognised human rights treaties and stakeholder consultations in countries of concern. Some of the key players, such as Exxon, Chevron and Eni, are not listed.

As of January 2006, there were 65 oil and gas companies participating in the UNGC, of a total 2,324 companies. However, just eight of the 32 petroleum companies listed in Fortune's Global 500 are members. The three largest US-based oil companies, Exxon, Chevron and ConocoPhillips, are notable exceptions. Companies from developing countries, in general, are well-represented in the Compact, and Argentina and India are the top two countries when it comes to oil and gas Compact signatories.

The specific CSR issues that the oil majors have engaged with and prioritised—and the evolution of the CSR agenda through time—reflects, to a large extent, the state of play regarding activist and global concerns on social and environmental issues. Consequently, much of the early CSR focus was on environmental management and protection. In the run-up to UNCED, the BCSD coined the phrase ‘eco-efficiency,’ and member companies such as Shell, Chevron and Eni proclaimed their commitment to environmental protection. Eni’s development of a lead substitute for gasoline, for example, featured as a case study in the BCSD’s *Changing Course*.²⁸ Chevron was already advertising its positive contributions towards environmental management and conservation in the ‘People Do’ campaign, which ran from 1985 to 2001.

Not all oil companies have engaged proactively with environmental management. In 1999, Total was pressured to address the issue of tanker safety following the Erika shipwreck off the coast of Brittany. While initially denying any responsibility, NGO protests and boycotts, as well as the intervention of French President Jacques Chirac, forced Total to tighten its vessel-vetting criteria and cooperate with the EU and shipping authorities to update tanker-safety legislation.²⁹

At the WSSD in 2002, the World Bank initiated the Global Gas Flaring Reduction Partnership (GGFR), which ten oil companies and several oil-producing countries have signed. The GGFR aims to reduce the flaring and venting of gas associated with the extraction of crude oil. Other activity in relation to environmental management for the oil industry has covered a range of areas and approaches, as demonstrated by Statoil’s overarching ‘Zero Harm’ policy, Exxon’s Biodiversity Action Planning and environmental management certification (such as ISO 14001).³⁰

Much of the industry was initially defensive about the issue of climate change, with many of the oil majors joining the now defunct Global Climate Coalition that lobbied against the Kyoto Protocol. It was not until 1996, when BP walked out of the Coalition that the industry position began to change. Several other oil companies, including Shell and Texaco³¹ soon followed BP’s example. Both BP and Shell have committed themselves to reduce emissions to 1990 levels by 2010 and are the only oil companies to have joined the Environmental Defence’s Partnership for Climate Action.³² Moreover, they are the only companies listed in KLD Research and Analytics’ Global Climate 100 Index, the first investor index comprised of companies focusing on solutions to global warming.

US companies tend to be more cautious and emphasise the role of research and development and eco-efficiency improvements. But, as research increasingly links human action with global warming, Chevron and Exxon’s approaches are shifting, so that instead of questioning the

validity of climate change science, they now emphasise the economic costs of alternative strategies. The ten largest oil and gas companies based in the US are now working with the Coalition for Environmentally Responsible Economies (CERES) towards developing better climate change policies.

Human rights have played a prominent role in oil companies' CSR agendas. As a result of growing local resentment where indigenous, land and environmental rights have been violated, attacks on oil operations have increased in some oil producing areas such as the Niger Delta.³³ Many oil companies recruit local security firms to protect their sites. As documented by several NGOs, including Human Rights Watch, Christian Aid and Global Witness, these firms frequently associate themselves with government or paramilitary security personnel that use force against local communities. There are currently four court cases brought under the U.S. Alien Tort Claims Act (ACTA) against oil companies for their complicity in human rights violations in Colombia, Indonesia and the Niger Delta.

The major oil companies have generally responded to human rights issues by including references to human rights or international human rights agreements such as the Universal Declaration on Human Rights in their codes of conduct. The Global Sullivan Principles, initially drafted to guide company behaviour on equal opportunities and human rights in apartheid South Africa, were one of the first human rights codes of conduct. The Voluntary Principles on Security and Human Rights were developed by the U.S. and United Kingdom (UK) governments, NGOs and extractive and energy companies specifically to address the issue of public and private security.

CSR initiatives relating to community development have undergone significant change from *ad hoc* 'assistance' to development partnerships with government agencies and NGOs. Spending on community development programmes by the oil, gas and mining sector was estimated at over US\$500 million in 1999.³⁴ Shell alone spent US\$106 million on 'social investment' in 2004, although this still represents less than 0.6 per cent of its net income. Such investment, however, is highly contested, as numerous projects have failed and some have exacerbated already fraught community and intra-community relations due to poor design, low community participation and the failure of companies to improve core business practice.³⁵ An external review of Shell's projects in the Niger Delta found that 'of the 81 projects visited...20 did not exist, 36 were partly functioning or partly successful and only 25 worked properly.'³⁶ In 2005, ChevronTexaco reportedly stated that its system of investment in the Niger Delta had been 'inadequate, expensive and divisive.'³⁷ As a result, Chevron aims to pay more attention to regional development, multi-stakeholder approaches and greater transparency in project implementation.

The Angolan Partnership Initiative led by Chevron has involved a move away from conventional infrastructure projects to skills development and the promotion of small and medium-sized enterprises (SMEs).³⁸

There has been considerable movement by oil companies in recent years in relation to other CSR issues, notably revenue transparency, which is a huge problem in an industry that is known to have lined the pockets of corrupt dictators and aggravated civil wars. In Angola, where up to 90 percent of government revenues are derived from the oil industry,³⁹ it has been claimed that nearly US\$1.4 billion went unaccounted for in 2001. The late Nigerian dictator, Sani Abacha, is said to have robbed the country of US\$2.2 billion, again, largely from revenues made from oil.⁴⁰

Pressure from NGOs such as Transparency International and the coalition 'Publish What You Pay,' have played an important role in bringing the issue to attention. To date, Canadian companies Talisman Energy and TransAtlantic Petroleum are the only two oil companies that systematically disclose details of royalties, taxes and bonuses in all the countries in which they operate. This is primarily the result of Canadian securities law that requires such disclosure.⁴¹

Progress has been slower where disclosure is voluntary, as in the cases of BP, Shell and Chevron, all of which have displayed patchy performance. One such approach to revenue transparency is the multi-stakeholder Extractive Industries Transparency Initiative (EITI). Launched in 2002 at the WSSD by the U.K. government, the EITI encourages companies to work with resource-rich countries. Participating companies include eight of the top ten publicly quoted oil producing companies.⁴² There have been recent calls for strengthening the process through developing an International Financial Reporting Standard for the extractive industries.⁴³

Despite the attempts made by the oil majors to engage proactively with the CSR agenda, they remain regular targets of civil society activism and litigation concerned with malpractice. A recent survey of 65 reported instances of malpractice found that oil, gas and mining companies account for two-thirds of the total.⁴⁴ Oil companies are also frequent recipients of 'greenwash' and other awards for corporate irresponsibility, such as the Public Eye on Davos and Multinational Monitor's annual list of top ten misbehaving corporations. Table 1 contrasts apparent evidence of the oil majors' CSR 'good practice,' such as their involvement in multi-stakeholder initiatives, the quality of social and sustainability reporting, and listings in sustainability indexes, with apparent indicators of 'bad practice.' The table also reveals significant variations in the extent to which different companies have engaged with CSR institutions or been targeted for malpractice.

Good practice? ²				Bad practice? ¹			
	Participation in ²	GRI ³	Indexes ⁴	Years in Multinational Monitor ⁵	Public Eye on Davos Awards ⁶	Top 100 'Corporate Criminals' of 1990s ⁷	Court cases using ATCA ⁸
BP	UNGC, WBCSD, EITI, GGFR	In Accord., OS	DJSI, FTSE4Gd KLD100	2000 ^a , 2005	Nominated: Labour Law 2005		Alaska, filed 1999 ^a
Chevron Corporation	WBCSD, GGFR			Chevron: 1992 ^b , 1998; Texaco: 1993, 1996; Unocal: 1994 ^c , 1998 Exxon: 1989 ^d , 2001; Mobil: 1998 ^e ; Exxon Mobil: 2001 1997 ^f	Unocal nominated: Human Rights 2005. Chevron Winner: Environment 2006	Chevron: 41st \$7m (1991) ^b . Unocal: joint 77th \$1.5m (1994). ^c 5th \$125m (1991) ^d ; joint 96th \$200,000 (1991).	Nigeria, filed 1999
Exxon	EITI, GGFR						Indonesia, filed 1996 ^e
Occidental Petroleum	EITI						Colombia, filed 1999 ^f
RoyalDutch/ Shell	UNGC, WBCSD, EITI, GGFR	In Accord., OS	DJSI, FTSE4Gd KLD100	1988, 1995 ^g , 2002	Winner: Environment 2005		Nigeria, filed 1997 ^g
Statoil	UNGC, WBCSD, EITI, GGFR	OS	DJSI, FTSE4Gd				
Total	UNGC, EITI, GGFR		DJSI, FTSE4Gd	Elf: 1997	Nominated: Human Rights 2005		

See Notes for Table 1.

Table 1: Good versus bad practice

The considerable diversity of company responses to CSR suggests that the polarised perspectives that abound about the inherent worth or irrelevance of CSR are misplaced. While many critics dismiss it as greenwash, proponents often suggest that CSR represents a fundamental departure from 'business-as-usual.'

To some extent, these categorisations may be a more accurate reflection of civil society and public perceptions. Reality is often more complex with so-called CSR leaders performing poorly in relation to certain issues while some of the 'bad guys' are not only playing catch-up, but also being proactive in some areas.⁴⁵ Among the large western oil companies, BP and Statoil generally are recognised for their proactive CSR policies and practices, while others, such as Occidental Petroleum, are heavily criticised for their 'business-as-usual' approach. Shell has attempted to position itself as a CSR leader but is regularly singled out for both good and bad practices. Firms such as Exxon, Chevron, Total and Talisman Energy are often portrayed as CSR laggards but have belatedly engaged with some aspects of the CSR agenda.

There are two types of analysis that explain heterogeneity. The first involves identifying specific 'drivers' or factors and processes that promote or constrain CSR. The relevance or impact of such factors varies by company. Particularly important in this regard are the intensity and nature of activism, traditional business interests and pressures associated with shareholders and profit maximisation, the contribution of CSR to competitive and political advantage and the mode of internalisation of CSR within companies.

For many years, the activist spotlight tended to focus on specific issues, countries and companies, without any rigorous correlation between the cases identified and the extent of malpractice. Issues, such as environmental degradation and the rights of indigenous peoples, which have been at the forefront of northern CSR activism, often receive the most attention. For many years, other issues, such as tax avoidance, corruption and corporate lobbying for regressive social and labour market policies, received less attention, although this has begun to change. Some developing countries, such as Nigeria, Angola, Colombia and Burma, are profiled far more than others. And, CSR activism tends to target specific companies, notably those connected with the countries where strong activist organisations and networks are centred, notably the US, the UK and the Netherlands. Companies like Shell, BP, Exxon, Occidental Petroleum and Unocal have been very much in the activist spotlight. The world's largest

oil companies (in terms of reserves)–state-owned corporations from the non-OECD countries–have, until recently, received little attention. Such is the case even when they take over the assets and operations of companies like Talisman Energy and Total when they leave countries like Sudan and Burma, where human rights abuses in oil zones are prevalent.⁴⁶

All the oil majors, of course, must prioritise shareholder interests and basic management goals associated with profitability and market share. Despite the prominence in CSR discourse of ‘win-win’ scenarios and the so-called business case for CSR, there are numerous tensions between these traditional objectives and CSR. Skilful company leadership is crucial for managing these tensions. Indeed, the McKinsey Global Survey of Business Executives suggests that executives believe overwhelmingly that the key responsibility for promoting CSR within corporate structures rests with Chief Executive Officers or Chairs.⁴⁷ In the oil industry, only a few such leaders have emerged, such as Lord Browne (BP), Mark Moody-Stuart (formerly Shell) and Philip Watts (formerly Shell).

But, even the most senior executives are highly constrained in what they can do, and their tenure can prove fragile if traditional shareholder interests are not protected. This was apparent when Philip Watts, the chairman of the Shell Transport and Trading Company and a strong advocate of CSR both within the company and internationally, was forced to resign in 2004, when the company was found to have overstated its proven oil reserve figures. While Lord Browne has attempted to rebrand BP as going ‘Beyond Petroleum,’ the task of transforming investment patterns has proven more difficult. The growing awareness of global warming may sensitise shareholders and companies to the need to pay more attention to investment in renewables and natural gas, but the more immediate reality of energy shortages, high oil prices and extraordinary profits appears to divert their attention not only to greater investment in traditional exploration or sites, but also to so-called unconventional oil that have extremely worrisome environmental implications. Shell reportedly claims that, within a decade, unconventional oil—such as tar sands, shale and coal-bed methane—could make up more than one-fifth of the company’s total resource base.⁴⁸

The uneven trajectory of CSR, both within and between firms, is explained partly by its opportunistic and strategic value which varies by company. This is apparent not only in terms of its usefulness for risk and reputation management, but also in relation to competitive and political advantage. Referring to Angola, Jędrzej Frynas provides evidence suggesting that ChevronTexaco conveniently entered into a partnership with U.S. Agency for International Development (USAID) and UN Development Programme in 2002, when negotiations with the government

were taking place for a long-term oil concession. Furthermore, when the concession was granted, the company committed US\$80 million to a social fund. Frynas notes other instances where corporate social giving was undertaken to curry favour with politicians and government officials and bring managers closer to policymakers.⁴⁹ The ongoing tightening and improvement of CSR policies and performance in proactive companies can be explained partly by the amount of scrutiny that companies preaching good practice are subjected to by watchdog organisations and other NGOs. It is also explained by the need for such companies to ensure that they gain an advantage by cultivating stronger relations with civil society organisations 'to distinguish themselves from other companies, turning their ethical advantage into a competitive advantage,' as well as greater political influence.⁵⁰

Variations in response also arise from differences in the way CSR is internalised within corporate structures. Very often, CSR is championed by specific individuals or public or corporate-affairs departments. In the case of CEOs or chairpersons, such individuals may carry considerable weight. They are, nevertheless, highly constrained in their ability to change structures and practices throughout the operations of giant corporations which are often located in numerous countries, as well as in remote locations where the institutional environment and corporate culture are often hostile to CSR. In this regard, trade unions potentially have an important role to play as they can act as eyes and ears throughout the corporate structure. But, only three oil corporations have signed a Global Framework Agreement with the International Federation of Chemical, Energy, Mine and General Workers' Union (ICEM): Statoil (1998), followed by Eni (2002) and Lukoil (2004).

Transforming management systems and developing competencies conducive to CSR requires considerable training, new types of recruitment and penalty and incentive systems.⁵¹ The difficulties encountered by Shell in translating its corporate discourse and commitment to resolve the issues of conflict and social and environmental justice involving the Ogoni people in the Niger delta into an effective strategy at the local level can, to some extent, be explained by such aspects.⁵² Other companies like Suncor, BP and Statoil have been more successful in this regard.⁵³ The annual bonus of the CEO of Statoil is reportedly partly linked to CSR performance criteria.⁵⁴

It is important to analyse, however, not only the state of play and interaction of specific drivers or factors but also the institutional context, history and legacies that shape corporate policy and practice. The differences in the response of US and European oil majors to CSR suggests the relevance of so-called varieties of capitalism and policy regimes analysis.⁵⁵

These analytical approaches explain significant variations in both state-market and company-stakeholder relations with reference to the different regulatory, policy, ideological, cultural and political settings in which companies operate; the relationships between different policies and regulatory institutions; and the importance of history, policy legacies and 'path dependency.'

The fact that U.S. companies like Exxon, Chevron, and Occidental Petroleum, or French companies like Total (and formerly Elf), were, far less engaged, or overtly resisted some aspects of the CSR agenda for many years, is partly explained by the different institutional and political context in which they operate. At the most general level, relevant in this regard are the variations in pressures and ideologies associated with so-called shareholder capitalism (*à la* US) and 'stakeholder capitalism' (*à la* continental western Europe), terms that suggest greater degrees of responsiveness to shareholder interests and a broader range of actors, respectively. Also relevant are variations in state-market relations and perceptions of the boundaries of corporate responsibility and government regulation. Varieties of capitalism analysis contrasts the strong legalistic tradition and culture of U.S. corporations like Exxon⁵⁶ and the political strategising of U.K. corporations not simply to resist regulation, but also to gain legitimacy and appease governments and society.⁵⁷ This analytical approach also helps to explain the apparent 'vanguard' position of a company like Statoil, which is associated with a 'Nordic' model characterised by consensus building and a relatively strong corporatist pact between state, capital and labour.⁵⁸

The case of France is exceptional in the sense that one might expect French companies to have taken a leadership role given their association with the so-called stakeholder model of capitalism. Yet, the CSR performance of French oil companies in Africa and Burma has been extremely negative. This partly reflects the fact that transnational activism tends to target 'Anglophone' companies and has largely spared French companies. But it is also explained by the history of the French oil industry and its close relations with the state, which turned a blind eye to malpractice in developing countries so as not to undermine the fundamental policy priority of securing independent energy sources. Perverse features of post-colonial relations and the French development aid business also reinforced this culture of malpractice.⁵⁹

The contemporary situation of some of the non-OECD national oil corporations, noted above, shares certain characteristics of the French situation. Not only are these companies largely ignored by activists and the media, but they too are supported by states in their home countries that are narrowly fixated on securing energy sources for their rapidly

developing economies.⁶⁰ But even within this category of firms, sharp differences in approach exist. In 'neo-populist' Venezuela, for example, the state oil corporation PDVSA reportedly spent US\$4.35 billion on social projects in 2005, or six per cent of its 2004 revenues.⁶¹

Variations in the institutional contexts and policy regimes of host countries also need to be taken into account, notably those related to regulatory frameworks and capacities, and governance structures. But the worst instances of malpractice related to human rights abuses and environmental mismanagement appear to take place in settings that share certain characteristics. Oil companies often operate in geopolitical areas characterised by 'weak governance'.⁶² Such may be the case at both the national level, for example in countries affected by or emerging from conflict, and the local level, particularly in remote areas where regulatory institutions are few and far between.

Institutional analysis is also important at the micro level of individual companies. Firms that have positioned themselves as CSR leaders, like BP, Shell and Statoil, often have a corporate cultural history that makes the jump from business-as-usual to CSR seem less daunting. The notion of path dependency is highly relevant in this regard. This helps to explain both the variations in levels of engagement with CSR in general and differential responses to specific aspects of CSR within companies. Respect for labour rights, for example, is fairly well embedded in European companies, which have a long history of cooperative engagement with governments and trade unions promoting labour rights. Similarly, the ease with which the tenth principle on anti-corruption was added to the UNGC in 2004 is partly explained not just by the entry into international law of the U.N. Convention Against Corruption and transnational activism on this issue, but also the fact that U.S. companies had become accustomed to anti-corruption regulation since the 1977 Foreign Corrupt Practices Act was passed.

The comparison of the strategic responses of the oil majors to climate change reveals the relevance of this type of institutional analysis. Examining the strategies of Exxon, Shell, BP and Texaco, David Levy and Ans Kolk characterise their responses as 'resistant' in the case of Exxon, 'avoidant' in the case of Texaco, and 'proactive' in the case of BP and Shell. They explain these varied responses in terms of 'regulatory expectations, norms concerning the conduct of business-government relations and cognitive assumptions regarding the future of fossil fuels and substitute technologies.' Particularly relevant, therefore, were the institutional context of the home country and the specific history and culture of each company.⁶³

The above analysis suggests that neat categorisations of CSR as greenwash or as a fundamentally new departure towards sustainability are both misconceived. Responses have varied considerably both among and within companies, reflecting considerable differences in institutional settings and in the way companies are positioned in relation to activism and other key drivers of CSR and company behaviour.

In this paper we have paid particular attention to political and institutional factors. Such analysis suggests that the future trajectory of CSR will depend not only on activism and the business case, but also on national and international regulation and the role of the state. The ideology and practices of 'voluntarism' that characterise the discussions of CSR have diverted attention from government-business relations and the importance of regulation and regulatory threats as drivers of CSR. Furthermore, the polarised debate between critics and proponents of corporate self-regulation and voluntary CSR initiatives has diverted attention from the possible synergies and complementarities between legalistic and voluntary, or softer and harder, regulatory approaches.⁶³ Also relevant in this regard is the growing attention to the crucial relationship between civil society activism and law.⁶⁵

There are signs, however, that the contemporary focus on 'corporate accountability' within some civil society and academic circles, as well as the overdue critique of neo-liberalism by some international organisations,⁶⁶ may be 'bringing the state back in.'⁶⁷ The concept of corporate accountability goes beyond CSR and mainstream voluntary approaches by emphasising that corporations should be obliged to answer to different stakeholders and incur some sort of cost or penalty in cases of non-compliance with agreed standards.⁶⁸ It also suggests a need for far greater involvement of governments and inter-governmental processes in the design and implementation of CSR standards and processes and a greater reliance on hybrid or complementary forms of regulation that articulate voluntary CSR initiatives and legal frameworks.⁶⁹

Such approaches are evident in institutional reforms and initiatives that currently or potentially affect oil companies. They include, for example, the regulations governing the use of revenues generated by the Chad-Cameroon Pipeline Project involving Exxon, EITI, the OECD Guidelines for Multinational Enterprises, and the draft U.N. Norms on the Responsibilities of Transnational Corporations and other Business Enterprises.⁷⁰ They are also evident in instances where, for example, the Voluntary Principles on Security and Human Rights have become binding for certain

projects,⁷¹ or when the contracts of CEOs, such as in the case of Statoil, specify the use of CSR indicators in performance reviews and the calculation of bonuses.⁷²

The challenge for the future involves not only 'bringing the state back' but also recapturing the state, in the sense of increasing the influence of certain actors and coalitions. This will require confronting some of the major weaknesses noted above regarding civil society activism; overcoming, for example, NGO-trade union tensions; reconnecting NGOs with social movements, governments and mainstream political processes; and building stronger and more equitable alliances between northern and southern organizations and networks. Also key is the difficult issue of forging alliances and crafting compromises with business interests prepared to work proactively for a more sustainable world.

Notes

¹ Peter Utting, 'Corporate Responsibility and the Movement of Business,' *Development in Practice* 15, no. 3 and 4 (2005).

² Now part of Chevron.

³ Total Fina became TotalFinaElf after the acquisition of Elf Aquitaine in 2000. The company was renamed as Total in 2003.

⁴ Boaventura de Sousa Santos and César A. Rodríguez-Garavito, 'Law, Politics and The Subaltern in Counter-hegemonic Globalization,' in *Law and Globalization from Below: Towards a Cosmopolitan Legality*, eds. Boaventura de Sousa Santos and César A. Rodríguez-Garavito (Cambridge: Cambridge University Press, 2005).

⁵ Ronen Shamir, 'Corporate Social Responsibility: A Case of Hegemony and Counter-hegemony,' in Santos and Rodríguez-Garavito, *Law and Globalization from Below*, 93.

⁶ Jem Bendell and David Murphy, 'Towards Civil Regulation: NGOs and the Politics of Corporate Environmentalism,' in *The Greening of Business in Developing Countries: Rhetoric, Reality and Prospects*, ed. Peter Utting (London: Zed Books, 2002).

⁷ Anthony Miller, 'The Development Dimension of Corporate Responsibility: Examples from the Petroleum Industry and Food Industry,' *UNTAC Working Paper*, January (2005).

⁸ OECD Watch, *Five Years On: A Review of the OECD Guidelines and National Contact Points* (Amersfoort, the Netherlands: SOMO Centre for Research on Multinational Corporations/OECD Watch, 2005).

⁹ A number of international (trade) union secretariats and transnational corporations have signed GFAs that commit corporations to implementing a set of standards throughout their global structure.

¹⁰ Utting, 'Corporate Responsibility and the Movement of Business.'

¹¹ Ibid.

¹² Jed Greer and Kenny Bruno, *Greenwash: The Reality Behind Corporate Environmentalism* (Penang: Third World Network, 1996).

¹³ Stephan Schmidheiny, *Changing Course: A Global Business Perspective on Development and the Environment* (Boston: MIT Press, 1992).

¹⁴ M.E. Porter and C. van der Linde, 'Green and Competitive: Ending the Stalemate,' *Harvard Business Review*, September-October (1995): 120-134; and Charles Holliday, Stephan Schmidheiny and Philip Watts, *Walking the Talk: The Business Case for Sustainable Development* (Sheffield: Greenleaf Publishing, 2002).

¹⁵ Robert Keohane and Joseph Nye Jr., 'Governance in a Globalizing World,' in *Power and Governance in a Partially Globalized World*, ed. Robert Keohane (London: Routledge, 2002); David Held, 'From Executive to Cosmopolitan Multilateralism,' in *Taming Globalization: Frontiers of Governance*, eds. David Held and Mathias Koenig-Archibugi (Cambridge: Polity Press, 2003); and John Ruggie, 'Taking Embedded Liberalism Global: The Corporate Connection,' in Held and Koenig-Archibugi, *Taming Globalization*, (2003).

¹⁶ David Levy, 'Environmental Management as Political Sustainability,' *Organization and Environment* 10, no. 2 (1997): 126-147; Bendell and Murphy, 'Towards Civil Regulation: NGOs and the Politics of Corporate Environmentalism;' and Peter Utting, ed., *The Greening of Business in Developing Countries: Rhetoric, Reality and Prospects* (London: Zed Books, 2002).

¹⁷ Peter Utting, 'Regulating Business Through Multistakeholder Initiatives: A Preliminary Assessment,' *Voluntary Approaches to Corporate Responsibility: Readings and a Resource Guide (Development Dossier)*, ed. NGLS/UNRISD (Geneva: United Nations, 2002).

¹⁸ Peter Utting, 'Rethinking Business Regulation: From Self-regulation to Social Control,' in *UNRISD Programme Paper TBS 15* (Geneva: UNRISD, 2005).

¹⁹ Judith Richter, *Holding Corporations Accountable: Corporate Conduct, International Codes and Citizen Action* (London: Zed Books, 2001); and Judith Richter, *Building on Quicksand: The Global Compact, Democratic Governance, and Nestlé* (Zurich Geneva: Bern Declaration, 2003).

²⁰ David Levy and Ans Kolk, 'Strategic Responses to Global Climate Change: Conflicting Pressures on Multinationals in the Oil Industry,' *Business and Politics* 4, no. 3 (2002): 275-300.

²¹ Luke Patey, 'A Complex Reality: The Strategic Behaviour of Multinational Oil Corporations and the New Wars in Sudan,' *DIIS Report*, no.2 (2006).

²² Scott Pegg, 'World Leaders and Bottom Feeders: Divergent Strategies Toward Social Responsibility and Resource Extraction,' in *Global Corporate Power*, ed. Christopher May (Boulder, CO: Lynne Rienner, 2006).

²³ Shell, *Profits and Principles: Does There Have to be a Choice? The Shell Report 1998*, 2nd ed. (London: Shell, 1998).

²⁴ KPMG, *KPMG International Survey of Corporate Responsibility Reporting 2005* (Amsterdam: University of Amsterdam/KPMG, 2005).

²⁵ Corporate Register, 'Global Report Output by Sector Since 1992,' *Corporate Register*, <http://www.corporateregister.com/charts/bysector.htm>.

²⁶ Includes integrated, exploration and production, refining and marketing, and oil service companies. See <http://www.globalreporting.org>.

²⁷ Companies participating in the UNGC agree to adhere to ten principles.

²⁸ Schmidheiny, *Changing Course*.

²⁹ Robert Graham, 'Capitalism Fails to Win French Hearts,' *Financial Times* (London) March 6, 2000.

³⁰ ISO 14001 was established in 1995 by the International Organization for Standardization (ISO) as a set of guidelines for improving environmental management and a certification system that indicates that a company has put in place an environmental management system that conforms to the guidelines.

³¹ Now part of Chevron.

³² Douglas Cogan, 'Corporate Governance and Climate Change: Making the Connection,' *CERES Sustainable Governance Project Report* (Boston: CERES, 2003).

³³ Michael J. Watts, 'Righteous Oil? Human Rights, the Oil Complex, and Corporate Social Responsibility,' *Annual Review of Environmental Resources* 30, (2005): 373-407.

³⁴ J. B. Wells, M. Perish and L. Guimares, 'Can Oil and Gas Companies Extend Best Operating Practices to Community Development Assistance Programmes?' (paper presented at the SPE Asia Pacific Oil and Gas Conference and Exhibition, Jakarta, Indonesia, 17-19 April, 2001).

³⁵ Uwafiokun Idemudia and Uwem E. Ite, 'Corporate-Community Relations in Nigeria's Oil Industry: Challenges and Imperatives,' in *Corporate Social Responsibility and Environmental Management* (forthcoming).

³⁶ Christian Aid, *Behind the Mask: The Real Face of Corporate Social Responsibility* (London: Christian Aid, 2004), 27, referring to a review commissioned by Shell, the findings of which were reported by *The Economist*.

³⁷ Integrated Regional Information Network (IRIN) West Africa, 'Oil Giant Admits Aid Policies Helped Fuel Violence,' IRIN. <http://www.irinnews.org/report.asp?ReportID=46948>.

³⁸ Miller, 'The Development Diminution of Corporate Responsibility.'

³⁹ Ibid.

⁴⁰ Global Witness, *All the President's Men* (London: Global Witness, 2002).

⁴¹ Save the Children UK, *Beyond the Rhetoric: Measuring Revenue Transparency in the Oil and Gas Industries* (London: SCUK, 2005).

⁴² Extractive Industries Transparency Initiative, 'BP is Now the World's Largest Oil Producer,' *Petroleum Review*, October (2005).

⁴³ Publish What You Pay Coalition, *Extracting Transparency: The Need for an International Financial Reporting Standard for the Extractive Industries* (London: Global Witness, 2005).

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⁴⁵ Pegg, 'World Leaders and Bottom Feeders.'

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⁶⁹ Utting, 'Rethinking Business Regulation: from Self-regulation to Social Control;' Halina Ward, *Legal Issues in Corporate Citizenship* (London: IIED, 2002).

⁷⁰ The draft U.N. Norms incorporate a wide range of standards that are derived from international law, and which are commonly found in multistakeholder initiatives associated with CSR. They also contain an implementation and monitoring mechanism, and go further by stipulating 'adequate reparation' for stakeholders affected by non-compliance.

⁷¹ United Nations Economic and Social Council (ECOSOC), *Report of the United Nations High Commissioner for Human Rights on the Sectoral Consultation entitled 'Human Rights and the Extractive Industry'*, 10-11 November, 2005, UN doc. E/CN.4/2006/92, (New York).

⁷² International Labour Office (ILO) Socio-Economic Security Programme, *Economic Security for a Better World* (Geneva: ILO, 2004).

¹ Some of the examples listed below refer to the same instance of malpractice. Such cases are marked with a, b, c etc.

² Denotes participation in the following initiatives: UN Global Compact (UNGC), World Business Council for Sustainable Development (WBCSD), EITI and GGFR.

³ 'In Accord.' refers to companies reporting 'in accordance' with the GRI Guidelines, and 'OS' denotes Organisational Stakeholders that play a role in GRI's governance and decision-making structure.

⁴ Indexes include the Dow Jones Sustainability Index (DJSI), the FTSE4Good and KLD Research and Analytics' Global Climate 100 (KLD100).

⁵ Multinational Monitor produces an annual 'Ten Worst Corporations' list. This refers to results from 1988 to 2004. See <http://multinationalmonitor.org>.

⁶ In 2005 and 2006, nominations were received and awards granted for corporate irresponsibility in several categories, including labour law, environment, taxes and human rights.

⁷ This refers to the listing compiled by Russell Mokhiber of corporations that pled guilty to a range of crimes during the 1990s. The data refers to the size of fine paid and their rank in the Top 100 'Corporate Criminals.' See <http://www.corporatepredators.org/top100.html>.

⁸ The U.S. Alien Tort Claims Act (ACTA) allows foreign nationals to bring a case to a (U.S.) domestic court for a civil wrong committed in violation of international law. The cases referred to are ongoing at the time of writing.

Climate Change and Collective Action: Troubles in the Transition to a Post-Oil Economy

35

JOSHUA BUSBY

Oil is essential to the modern economy, providing, among other things, the foundation for transportation systems that facilitate human mobility. The security of oil supplies at reasonable and stable prices is one of the highest priorities of any government. The discovery of petroleum and the invention of the internal combustion engine radically transformed human existence in the 20th century, providing for individual mobility across wide geographic spaces. While citizens of the United States (US) in particular have long enjoyed personal automobiles, millions of Chinese and Indians are set to experience such liberty for the first time as their countries become richer. However, the seductive freedom of the automobile comes concomitantly with a dependence on petroleum that most countries must import from unstable regimes. Oil has facilitated the modern industrial economy and yet given rise to negative externalities, from pollution and negative effects on public health to a corrosive impact on governance, particularly among producer nations. These effects have become increasingly salient as the consequences of global climate change have become clearer. At the same time, the links between oil dependence, authoritarian oil producing regimes and terrorism have crystallised public awareness of the oil security externalities that are not incorporated within market prices.¹ In 2005, it appeared that US\$70 per barrel oil prices might have provided the market signal that consumers should ready themselves for the post-oil future.² However, while technological developments may yet yield rapid transitions to a much less oil intensive economy, without creative government policies and aggressive efforts by industry, present trends will only deepen global oil dependency. Even as sophisticated alternative energy enthusiasts suggest a swift transformation in fuels and transportation platforms is possible,³ most mainstream analysts of energy markets believe petroleum will remain the predominant source of fuel in the transportation sector for the next several decades.⁴

The question that animates this paper is, 'If the negative security and environmental externalities of oil dependence are manifest, why is the transition to a post-oil economy going so slowly?' Focusing on ef-

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forts to address climate change, the article draws upon collective action and public goods theories to emphasize: the nature of the problem, the challenges of institutional design and the fairness of the policy process.⁵ The article suggests that a multilateral-led planned transition to a carbon-free economy is politically and institutionally more complex than is often realized. Given the nature of the problem, the paper concludes that the initial institutional design of international climate fora has not been effective, though it has benefited from the legitimacy of universal state participation. The article then uses insights from collective action and public goods theories to sketch out what actions could be taken to facilitate a transition that has the best chance of political and commercial survival. The basic argument is that consensus-based multilateral fora of hundreds of heterogeneous nations, such as the United Nations Framework Convention on Climate Change (UNFCCC), are not conducive to significant collective action for pure public goods. Instead, smaller regimes are needed in order to obtain the convergence of preferences and interests required for collective action. Moreover, nation states' recognition, particularly by the United States, of self-interested motives for energy conservation (for energy security and industrial renewal) is likely to have more impact on emissions than a universal membership treaty apparatus.

The first section of this paper documents the extent of oil dependence. The second section draws upon public goods theory to discuss what makes collective action on climate and a post-oil economy so problematic. The third section discusses proposals for institutional design that might make progress on emissions reductions and efficient fuel use in the transport sector more likely.

Wedded to Oil

Those worried about climate change and hopeful for a life 'beyond petroleum' often look for portents of when the transition to alternative fuels can take place such as: the Kyoto Protocol entering into force, US\$70 per barrel oil prices, the establishment of a European-wide emissions trading regime, powerful hurricanes and the hottest year on record. Much of this may be wishful thinking.

We remain highly dependent upon oil and are likely to remain so for the next several decades. Oil provides about 40 percent of global energy needs and is projected to provide about that amount in 2030.⁶ As one energy analyst argued, 'Oil remains a nearly ideal fuel for transportation.

It has a high energy density, is easily and relatively safely carried on vehicles, and benefits from a huge existing infrastructure for production and distribution.⁷ Some energy analysts and scholars suggest that within a decade we will reach 'peak oil,' when more than 50 percent of the world's oil stocks will have been taken out of the ground.⁸ Economists, however argue that high prices will drive the discovery of harder to reach sources of oil and make the extraction of alternatives profitable as has occurred with Canada's tar sands, thus postponing the day of reckoning. The greater difficulty, in the short run, is producers' lack of spare capacity to extract and refine crude oil.⁹

The much vaunted hydrogen economy remains decades away from commercial viability. Even if costs are brought down, there are other issues, not least of which is the source of energy required to produce hydrogen.¹⁰ Hydrogen's energy source is likely to come from other fossil fuels, such as natural gas or coal, the latter requiring some means of carbon sequestration for hydrogen to contribute to an economy of no net carbon emissions. Moreover, a hydrogen economy will also require an expensive transformation in the infrastructure for refuelling vehicles.¹¹ Biofuels from cellulosic feedstocks (from corn, switchgrass and other plant material) offer some possibilities for short to medium-run substitution of fossil fuels without radical restructuring of automotive technology or fuel infrastructure.¹² Nevertheless, petroleum will remain the primary transportation fuel for decades.

Oil use is projected to grow by 57 percent worldwide between 2000 and 2025. By 2025, oil consumption is projected to be 119 million barrels per day, up from 77 million barrels in 2001.¹³ While growth in Asian fuel demand is one source of this projected increase, 20 percent of that growth will be driven by rising U.S. demand, which is projected to grow by 44 percent between 2000 and 2025.¹⁴ The percentage of oil the US imports is projected to rise from 53 percent in 2000 to 70 percent in 2025, compared to 66 percent for the European Union (EU) and 100 percent for Japan.¹⁵ With only 9 percent of global production and 2 to 3 percent of global reserves, the US will not be able to reverse this trend through expansion of domestic oil production.¹⁶

Surging petroleum consumption in fast-growing countries in the developing world, particularly in China and India, rivals rising fuel demand in the US. The Indians and Chinese currently have car ownership patterns like those in the US in 1915.¹⁷ In the next quarter century, the number of vehicles worldwide is projected to rise from 700 million to 1.3 billion; twenty percent of that increase in China alone.¹⁸ India, for its part, has a middle class of 250 million people, but the country only has about 8 million passenger vehicles.¹⁹ China may overtake the US as

the world leader in fuel consumption and car ownership between 2020 and 2025.²⁰

This growth in vehicles and fuel consumption, if unchecked by fuel switching and technological change in the automotive industry, will contribute to greater greenhouse gas emissions. Transportation was responsible for about 15 percent of global greenhouse gas emissions in 2000, having grown 36 percent in the 1990s. The transportation sector was the fastest source of emissions growth in Europe and Japan and the second fastest source of emissions growth for the US, India and China in the 1990s.²¹ Greenhouse gas concentrations in the atmosphere have risen 35 percent above pre-industrial levels, from 275 parts per million by volume (ppmv) to 375 ppmv. Without action to restrain emissions, they could climb to 1,000 ppmv, nearly four times pre-industrial levels. It is unclear what effects this might have, though many analysts counsel restraining emissions to no more than twice pre-industrial levels (550ppmv) to avoid the worst consequences.²²

Of all energy sectors, transportation may be the most difficult to transform, given consumption patterns and the inadequacy of substitutes. In the developing world, the problem stems from millions being able to afford automobiles for the first time;²³ the problems in the US—aside from a higher propensity to drive—stem from the vehicles Americans are buying. In the US, light trucks—including sport utility vehicles (SUVs), vans and pickup trucks—were projected to constitute more than 50 percent of vehicle sales in 2005, nearly double their share in 1985. SUVs alone make up more than 25 percent of the market, up from 2 percent in 1975.²⁴ Sales growth of heavier models has contributed to falling U.S. fuel efficiency.²⁵ Much has been made of the ability of hybrid technology to reverse this trend. However, these cars constitute a trifling portion of the market. For example, the US possesses about one-quarter of the world's 531 million automobile fleet,²⁶ yet hybrids accounted for 1.3 percent of light vehicle sales in 2005 and are projected to constitute only 4.2 percent of sales by 2012.²⁷ Hybrids alone are unlikely to transform oil consumption patterns.

The high price of oil in 2005 brought some evidence that U.S. consumers do have some demand elasticity and are willing to shift their automobile purchase patterns. However, the U.S. federal government's willingness to release a portion of its strategic petroleum reserves in the wake of Hurricane Katrina also signalled to speculators that there were upper bounds to how high the U.S. government was willing to let prices rise. As a consequence, gas prices fell from peak prices of more than US\$3 per gallon in September 2005 to about US\$2.20 per gallon by December 2005.

As of this writing, oil prices have settled into a new, higher equilibrium compared to earlier eras, with prices above US\$40 per barrel and spiking up to US\$60. Periodic production stoppages in Nigeria and Venezuela, worries about Iran's nuclear program and other issues continue to destabilize oil markets. However, neither scientific awareness about the dangers of climate change nor market pressure appears sufficient to alter producer or consumer habits in a significant way. Thus far, advanced industrialized countries have primarily pursued diversification of sources of oil supplies. Barring some major changes in public policy, oil will remain the dominant source of fuel in the transportation sector.

Public Goods and Collective Action on Climate Policy

Advocates of climate mitigation often talk about efforts to limit greenhouse gases as if they were analogous to domestic pollution control and downplay the transition costs to a non-fossil fuel based economy.²⁸ They note that industry typically overstates the costs of implementing new pollution control agreements, only to discover the costs are significantly less than had been anticipated. While this is likely to be true for some aspects of climate mitigation, the orchestrated movement away from petroleum, for geo-strategic or environmental reasons, to a more benign alternative is without precedent in the history of international collective action. As Victor has noted, "To understand the magnitude of the task, imagine your day without fossil fuels. No car; no electricity in most of the country; no air travel; no gas for cooking and heating."²⁹ Most technological transitions, like the use of personal computers, are rapidly adopted because they provide immense advantages to individuals and firms; however, it is difficult to envision a self-reinforcing transition away from oil. Sober-minded proponents of alternative fuels like Amory Lovins remind us that:

Transitions can be swift when market logic is strong, policies are consistent, and institutions are flexible. It took the US only 12 years to go from 10 percent to 90 percent adoption (in the capital stock, not new sales) in switching from horses to cars, from uncontrolled automotive emissions to catalytic converters, and from steam to diesel/electric locomotive.³⁰

Lovins, of course, has been making arguments about energy efficiency for thirty years. What has prevented his vision from coming to pass? While one could point to subsidies for fossil fuels or barriers to technological innovation at the firm or national level, this article is concerned with the higher order challenge of moving away from oil. By looking at how the related problem of climate change has been dealt with, we can appreciate the difficulty such a transition will entail. Theories of collective action and public goods provide us with an analytical framework to understand the problems that have bedevilled policymaking in the climate arena. These theories draw attention to the nature of the problem, the challenges of institutional design and the fairness of the policy process.

The Problem

Market failure, in part, drives climate change. Markets fail when there are negative externalities, which are consequences of actions not accounted for in market transactions. As a result, actors tend to produce more of these goods than is socially optimal because they are not penalised for the consequences that accompany production.³¹ For oil consumers, prices at the pump do not reflect the true social costs of a gallon of gasoline; these social costs include increasing concentrations of greenhouse gases and the security costs of periodically waging war to defend access to oil supplies in the Middle East.

Markets also fail because they cannot provide public goods, which are characterised by non-excludability and non-rivalry of benefits. Non-excludability means supplying the good to one person makes the good's benefits available to all actors at no additional cost. Non-rivalry means there is no congestion or exhaustion of the resource. One person's enjoyment of the good does not detract from another person's. Providers of public goods cannot stop those who do not pay for it from using the good, which means there are incentives for some to free-ride. This dampens overall enthusiasm to supply the good, leading to its under provision.³² National defence is a typical example. An effective national government uses its taxation capacity, backed by force, to enforce domestic laws and deter free-riding behaviour. In the international context, there is no world government to act as enforcer. International agreements, therefore, must rely on a hegemon to bear the costs of establishing an international order.³³ Alternatively, the parties' situational incentives must become aligned to support cooperative behaviour.

Climate protection is a global public good. Since the concentration of greenhouse gases is what matter, any country reducing emissions provides benefits to all countries. That said, the effects of climate change are asymmetric, and some countries stand to gain more from emissions reductions. While many developing countries are expected to be worse off as a result of more variable rains and extreme weather events, some nations like Russia are expected to gain from warmer temperatures and better conditions for agriculture. Asymmetries give less affected countries bargaining power. They also give leverage to those nations responsible for the problem, particularly when those countries are too powerful to be coerced into cooperation.³⁴ This has given major emitters veto power in current climate regimes since advocates know their participation is required and that enforcement mechanisms are weak.³⁵

Some goods may be impure public goods (either somewhat excludable or somewhat rival) or club goods (partially rival and excludable), which may mitigate collective action problems. Club goods lend themselves to private provision since members can exclude non-members and control crowding through tolls or fees.³⁶ The European emissions trading system in a sense represents a club good, since it creates a fixed quantity of emissions credits that only Kyoto members can exchange. Thus, some features of the current climate regime may be resilient.

However, aside from non-rival and non-excludable benefits, a third attribute of global public goods also complicates collective action. These are what Sandler calls the 'aggregation technology.' This is a measure of how individual contributions of the public good add up. If they merely sum, then each actor's marginal contribution is the same and is substitutable. This is a powerful driver of free-riding behaviour because each agent can foresee that some other actor could provide the good. By contrast, there are other kinds of aggregation technologies. For example, a 'best shot' technology is one for which the largest effort determines how much of a public good is provided. Investment in discovering cures is an example. The research team that first succeeds provides the benefit to all. Another kind of aggregation technology is the 'weakest link,' for which the least effort determines the provision for all. Sandler suggests airport security as an example; the least secure airport establishes the level of safety for the entire system.³⁷ Since the minimum level of contribution determines how much of the public good is provided, actors should match the minimum level since larger contributions go unrewarded.³⁸

These and other aggregation technologies may diminish concerns of suboptimal outcomes and free-riding. For example, one way governments reward best shot technologies, such as scientific research, is through patent rights. This gives the research team an excludable benefit

(albeit for a limited period of time), providing actors with an incentive to supply the public good. The final section discusses technology prizes as another way to create incentives for private provision of public goods.

The previous example illustrates a more general point. When there are 'joint products,'—goods that have both public benefits and private excludable benefits—there may be unilateral incentives for an actor to provide the public good. The higher the percentage of excludable benefits, the more likely markets and clubs will be able to provide the good.³⁸ For example, new carbon-free energy technologies may provide private benefits for firms and nations as well as public benefits of reduced greenhouse gases. As the section on institutional design suggests, an ideal climate regime should facilitate actors' ability to reap these kinds of private benefits. The E.U. trading regime, by putting a price on carbon, accomplishes this by rewarding innovation. However, to the extent that a regime does not protect or reward intellectual property, there may be disincentives for private firms or states to provide necessary investments in new energy technologies, particularly when it comes to technology diffusion from rich industrialised countries to rapidly growing consuming nations like China and India.

Like the ozone hole, climate change appears to be both a pure public good and to have summation aggregation technology, both of which make collective action more difficult.³⁹ Despite sharing these characteristics, the ozone hole proved to be much easier to address. Chlorofluorocarbons (CFCs), which are the chemicals responsible for thinning of the ozone layer, were important in refrigeration and in aerosols but not central to the functioning of modern economies. Indeed, CFC production was highly concentrated with a single firm, Dupont, having a large share of the global market. Unlike petroleum, substitutes were soon available for CFCs. Perhaps the most important difference was that the benefit-cost ratio of dealing with the ozone problem was thought to be more favourable than it is for climate change. While the costs of controlling CFC emissions were manageable, the benefits, such as reducing the incidence of skin cancer and damage to fisheries and agriculture, were so large that major CFC producers like the US had a unilateral incentive to reduce their emissions.⁴⁰ Aside from differences in the perceived benefits of emissions reductions, climate mitigation would also impose concentrated costs on carbon intensive sectors of the economy while providing diffuse public benefits; this gives the fossil fuel industry a strong incentive to defend its interests and the public only modest incentives to organise.⁴¹

While these factors have complicated collective action on climate change, the passage of time may change perceptions of the consequenc-

es of inaction. Moreover, developments in energy markets and related policy arenas have created other incentives for movement away from petroleum. As the final section notes, investments in alternative energy technologies resemble better shot public goods that offer potential 'joint products'; this suggests that there might be ways to encourage collective action and reward private initiatives.

Institutional Design

Rationalist theories of institutional design are based on the premise that international institutions are instruments that states consciously use to pursue their interests.⁴² This argument is functional and claims participation in new institutions is based on actors' subjective assessments of the likelihood of involvement providing them net material benefits.⁴³ International agreements must ultimately be 'incentive compatible' so states have an interest in supporting them.⁴⁴ Incentive compatibility ensures agreements are 'self-enforcing.' Self-enforcing agreements are ones in which no state can do any better by individually withdrawing from the agreement, and collectively countries cannot do any better renegotiating the treaty; consequently rational actors perceive participating in the agreement to be in their interest both collectively and individually.⁴⁵

One problem that frequently undermines effective collective action is the number of players involved, which may reflect both the nature of the problem and the institutional response. This finding dates back to Mancur Olson's original studies of collective action in the 1960s.⁴⁶ As Sandler argues, a few important holdouts can undermine effective action, 'Large-numbers externalities are more complicated to correct than small-number externalities, because a greater number of interdependencies must be identified, valued, and compensated.'⁴⁷ In one sense, larger numbers can potentially facilitate agreement by making it easier to find compensatory concessions across issues.⁴⁸ However, as Koremenos and her co-authors note, 'Large numbers raise questions about how to share both the costs and the benefits of cooperation, especially when some actors are richer, bigger, or more powerful than others.'⁴⁹ Moreover, as Oye argues, 'The chances of including a state that discounts the future heavily, that is too weak (domestically) to detect, react, or implement a strategy of reciprocity, that cannot reliably distinguish between cooperation and defection by other states, or that departs from even minimal standards of rationality increase with the number of states in a game.'⁵⁰

Victor, House and Joy note the effect of large numbers in the climate arena explaining, 'Global agreements are also vulnerable to exit when commitments become inconvenient (such as when the US abandoned the Kyoto process).'⁵¹ Since it is costly to punish defectors, enforcement itself is a public goods problem.⁵² As Mitchell and Keilbach argue:

But if large harms of violations fall on a diffuse set of actors, as often occurs in environmental affairs, retaliatory non-compliance will be unlikely. The individual costs of retaliating will exceed the individual benefits, creating collective action problems...⁵³

As a result, it is very difficult to create a self-enforcing international environmental agreement since there are a large number of players and large gains from cooperation.⁵⁴

The climate change problem and the institutional response to it suffer from large numbers of players. Certainly all nations produce greenhouse gases and contribute to environmental degradation, albeit unequally. The framework convention—the UNFCCC and the more exclusive Kyoto Protocol—have large numbers of parties, 189 and 157 respectively. Decision rules are typically by consensus, though some decisions may be subject to supra-majority decisions.⁵⁵

With such large numbers of players involved, there is a tendency for the negotiations to be driven to the lowest common denominator. This creates what Barrett terms a tension between breadth and depth, 'Countries can reach a consensus around a weak agreement, or they can negotiate a more potent but incomplete agreement.'⁵⁶ The US and Australia's failure to participate and the lack of commitments from countries like China and India mean the Kyoto agreement is a hybrid institution; it is a regime of binding commitments for the few and voice opportunities for the many. However, the regime may be both overly and insufficiently inclusive, too many bit players and not enough main characters.

Consequently the Kyoto regime may be unstable. If other states increase their emissions while Kyoto members engage in self-abnegating behaviour, the regime will contribute little to the amelioration of the problem. Moreover, there is a broader concern about trade leakage;⁵⁷ trade leakage would involve industries in Kyoto countries relocating to free-rider nations because of the loss in competitiveness that the treaty induces.⁵⁸ These concerns may become more salient as countries like Germany grapple with high labour costs and persistent unemployment. That said, the European emissions trading system may survive because the EU market is sufficiently large to have market power. As

long as the private sector thinks the political commitment to the trading system is strong, the new currency of carbon credits will retain value and multinationals with European operations will have to conform to E.U. standards.

The Fairness of the Process

Linked to the issue of institutional design and membership is the issue of fairness. The perceived legitimacy of the institutional arrangements also affects an agreement's durability. As Barrett notes, a shallower but more inclusive institution may benefit from a perception of legitimacy that more exclusive efforts do not.⁵⁹ On one level, the Kyoto agreement appears to pass two tests of fairness by being inclusive (many countries are a part of the process) but the binding commitments apply only to the rich, industrialised countries that are historically responsible for climate change. However, the Kyoto agreement fails to include commitments from countries that are currently or will be responsible for a significant share of greenhouse gas emissions; nevertheless, Kyoto gives these and many other countries a voice in regulating others' behaviour. As a result, the climate regime creates powerful incentives for those facing the most onerous commitments to withdraw.

In 2005, Canada hosted the eleventh Conference of Parties (COP 11) and first Meeting of the Parties of the Kyoto Protocol (MOP 1) since it entered into force. COP 11/MOP 1 produced desultory results. The agenda was to discuss what to do after the first Kyoto commitment period ends in 2012. After much debate, countries agreed to formal talks on the second commitment period under the Kyoto Protocol and, at the insistence of the US, a separate set of informal talks under the UNFCCC to discuss nonbinding measures for long-term cooperative action.⁶⁰ While defenders of Kyoto held the former as proof that the process lives, the refusal of the US and other major emitters such as Australia, China and India to participate in a meaningful way will, in time, shake the faith of markets and governments in Kyoto countries. To prevent that from occurring, new ideas for engaging key emitters are needed.

While the Kyoto Protocol was able to enter into force, the climate regime still needs to induce key free-riders to participate. Is there any alternative to the large numbers fora of the UNFCCC and the Kyoto Protocol? There may be ways to 'decompose' the climate regime to reduce the numbers of players.⁶¹ Downs *et al* suggest that multilateral initiatives are most successful when they start small.⁶² Beginning with the most committed actors can overcome the tension between breadth and depth. In time, an institution that is successful can create a self-reinforcing dynamic that draws in other actors and deepens cooperation over time. This has been reason for the General Agreement on Tariffs and Trade's (GATT) success as well as the EU.⁶³ In the climate arena, the exclusiveness of the EU's emissions trading scheme most closely replicates this dynamic.

Only a handful of states are major emitters of greenhouse gases. Restricting the focus to emitters responsible for more than 2 percent of carbon dioxide (CO₂) emissions in 2002 would capture more than 70 percent of emissions. If we treat the EU as a single entity, this reduces the total number of key actors to eight—the US, the EU, China, Russia, Japan, India, Canada and South Korea.⁶⁴ Treating any state as a unitary actor able to effectively ensure compliance with a climate agreement is problematic, particularly in the transportation sector for which greenhouse gas emissions are the aggregate of billions of individual and firm-level decisions. Solutions will have to align micro-level incentives as well as those of nation states. How might this be done?

First, the major emitters should not abandon the UNFCCC. If the major emitters create an agreement among themselves that does little to address the concerns of the developing world, the legitimacy of the new regime may be undermined. Poor countries can be expected to protest if there is no institution to represent their interests. While they may ultimately have to accept whatever the major emitters offer them, poor countries may be able to undermine more exclusive climate regimes through non-cooperation in other spheres like trade. Moreover, greenhouse gas emissions are not so concentrated that developing nations' participation will be entirely irrelevant. In any case, measures of generosity handled through a more universal forum like the UNFCCC (such as support for an adaptation fund for developing countries) are likely to minimise, if not eliminate, the sense of grievance that an agreement among large emitters may cause.

Occasionally using the existing framework of the UNFCCC will also demonstrate that the institutional canvass is not blank and that

many actors, including the EU, are still wedded to the large multilateral negotiating space.⁶⁵

At the same time, states should seek ways to bring in outliers, particularly China, the US and India. Japan and Canada, both facing the potentially high costs of implementing Kyoto, are particularly interested in engaging the US. By creating the Asia-Pacific Partnership on Clean Development and Climate in 2005, the US and five Asian nations have gone 'forum shopping' to create a more favourable regime.⁶⁶ While environmentalists have dismissed this new forum as an attempt to undermine Kyoto (which it may be) and gloss over U.S. inaction, this regime may have potential to be more than a public relations endeavour.

The primary challenge is how to encourage technological innovation both within and among nations. Focusing on the transportation challenge and oil, advanced industrialised countries will be the primary source of innovation of clean energy technologies, alternative fuels and automotive technologies that will power vehicles in the future. Despite a collective interest in supporting new technologies, nations have powerful incentives to support their own nominally 'national' firms and minimise competitiveness losses.⁶⁷ If there is going to be international technological transfer, particularly from rich countries to rising powers such as China and India, institutions will have to overcome this distributional disincentive to cooperate.

Would a new binding treaty be a step forward? An emerging line of scholarship in international relations takes a sceptical view of the ability of international treaties to bind countries to deep commitments. Most treaties they suggest merely codify what countries were prepared to do in the absence of an international agreement. At best, they serve to coordinate countries' expectations about each other's behaviour.⁶⁸ Indeed, von Stein suggests preliminary evidence supports the view that countries were more likely to ratify the Kyoto Protocol if they were already 'relatively compliant with the treaty's terms.'⁶⁹

This view probably understates the importance of international agreements. Treaty negotiation is a costly commitment that states take seriously.⁷⁰ States that go to the trouble of negotiating and ratifying a legally binding treaty risk reputational losses if they are unreliable, potentially forfeiting a stream of benefits as their partners shy away from future cooperation.⁷¹ Moreover, politicians risk domestic political backlash should they fail to live up to treaty commitments. While these losses may be modest, they are still significant enough to make politicians think carefully about their ability to comply before ratification.

Given the uncertainty over the costs of compliance and the possibility of defections, states simultaneously want to guarantee as much

flexibility for themselves while locking in other states to legally binding commitments; this asymmetry is unsustainable. Fears about non-compliance lead states to make cautious, shallow commitments that they know they can probably achieve. Is there a way out of this impasse? Raustiala makes the case that nonbinding pledges may permit states to make deeper, more ambitious agreements that even if not fulfilled would achieve more than a shallow legal commitment.⁷²

The risk is that these nonbinding agreements would turn into a series of empty gestures, amounting to nothing more than grand but unkept promises. The perception that binding obligations are more effective has fostered a preference among activists for treaties. Thus, when Japan proposed a 'pledge and review' process for engagement on climate change in the lead up to the Earth Summit, the environmental community lambasted them for what was considered a weak and ineffectual measure.⁷³ The disdain for President Bush's voluntary intensity targets, in part, reflects this treaty bias.

However, 'pledge and review' may be experiencing something of a revival. Victor *et al* propose a bottoms-up effort that the twenty most industrialised countries would coordinate:

A different approach would engage leaders to set ambitious, nonbinding goals that would steer the Madisonian effort. Heads of government would assemble cross-cutting deals into a package of climate policies. Peer review would promote learning and hold governments accountable.⁷⁴

One of those deals could consist of pledges from each member to institute a mandatory domestic cap-and-trade system that would create credible carbon currencies that in time could be linked.⁷⁵ Barrett suggests that internationally negotiated technology standards might also serve to coordinate action. Though less efficient than a global trading system, such standards be easier to monitor and deter non-cooperative behaviour.⁷⁶ Authorities could pledge, as California has done, that new automobiles would have to meet a standard of reduced carbon dioxide emissions by a certain time period. These agreements, being internationally negotiated and sectorally-based, might temper industry's fears about competitiveness losses.

That said, given the parlous state of the US automobile industry and its large economic and political heft, additional incentives would be required to mute industry opposition. Moreover, the economic incentives to support domestic industry may make international collaboration on new fuels and transport vehicles problematic. However, a new

understanding of the security externalities of dependence on oil may have created more selective incentives for the US unilaterally to improve fuel efficiency and support non-oil based options in the transport sector.

Unfortunately, the US government's record on supporting alternative energy sources and new vehicles—from synthetic fuels to ethanol to zero emission vehicles—has not been especially good. The dilemma of how to support technological development without 'picking winners' remains. On one level, innovation will be spurred if there is a price on carbon. Economists have grudgingly accepted political realities and moved from supporting the most efficient system—carbon taxes—to second best options such as a cap-and-trade system that limits greenhouse gases but allows firm to trade emissions permits. The EU's emissions trading system is an example. Senators John McCain and Joe Lieberman have been presenting similar proposals for the US for several years. The political difficulty of initiating such a program in the US has led economist Billy Pizer to endorse a cap-and-trade system that includes a safety valve (to provide more emissions permits if prices rise too substantially) that is based on greenhouse gas intensity targets (rather than an outright cap on total emissions).⁷⁷

Even if enacted, the market signal for such a system is likely to be weak in the absence of complementary action. One way for governments to spur innovation is to offer prizes to companies that are able to meet ambitious technology standards. This has been used before, most famously in the 1700s for the device that could determine longitude at sea. More recently, the Gates Foundation has offered US\$450 million in prize money to support the development of new vaccines for diseases and improvements in tropical crop varieties.⁷⁸ Such prizes in the transport sector could take the form of monetary awards or procurement contracts. The prize would need to be attractive enough to induce research and investment. For example, successful delivery of a car that reduced greenhouse gas emissions by 50 to 70 percent and was market ready could approximate a best or better shot technology with spill-over benefits for the rest of society.⁷⁹

In discussing the collective action problems that have plagued climate change negotiations, this article has illustrated the difficulties of making the transition to reduced dependence on oil, let alone to a post-oil economy. Climate change mitigation is a pure public good for which each country's emissions reductions are substitutes. These attributes encourage free-riding and under provision of the public good. Moreover, the centrality of fossil fuels and the unclear net benefits of mitigation create powerful constituencies against policy change and only weak support for action. Institutionally, the large number of players participating in the UNFCCC and the Kyoto Protocol has made it harder to achieve an agreement. A focus on targets and timetables through binding legal commitments for some, but not all, key emitters has encouraged the U.S. government to withdraw.

Remedies to these problems would include a smaller forum for key emitters in which they could negotiate more ambitious, nonbinding commitments buttressed by technological standards and mandatory domestic trading regimes. Insights from public goods theory suggest that an institutional framework that can exploit self-interested motives, through, for example, encouraging technological innovation and allowing a flexible and differentiated response, may create greater incentives for states to act collectively than a binding legal treaty. Indeed, instability among oil exporters coupled with rising concerns about climate change may provide the US with incentives, regardless of what other states do, to reduce its vulnerability to oil through improved fuel efficiency and new fuels.

Notes

¹ The Brookings Institution, "Transcript of Energy's Future: What Should Americans Know? Sources, Dependency, Conservation, Alternatives, Environment," Brookings Institution, <http://www.brookings.edu/comm/transcripts/20020621.htm>; Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, 1st ed. (New York: W.W. Norton, 2003).

² Former U.S. energy secretary James Schlesinger makes this case. James Schlesinger, "Thinking Seriously," *The National Interest* 82, Winter (2005/2006).

³ Amory B. Lovins, *Winning the Oil Endgame: Innovation for Profits, Jobs and Security*, 1st ed. (Snowmass, CO: Rocky Mountain Institute, 2004).

⁴ See contributions from the edited volume by Jan H. Kalicki and David L. Goldwyn, 'Conclusion: Energy, Security, and Foreign Policy,' in *Energy and Security: Toward a New Foreign Policy Strategy*, eds. Jan H. Kalicki and David L. Goldwyn, 564 (Washington, D.C.: Woodrow Wilson Center Press, 2005); and, *Ibid.* 17.

⁵ These are roughly equivalent to what Raustiala and Slaughter call problem structure, solution structure, and solution process. Kal Raustiala and Anne-Marie Slaughter, 'International Law, International Relations, and Compliance,' in *Handbook of International Relations*, eds. Walter Carlsnaes, Beth A. Simmons and Thomas Risse-Kappen (London: Sage, 2002), 545

⁶ Adam E. Sieminski, 'World Energy Futures,' in *Energy and Security: Toward a New Foreign Policy Strategy*, eds. Jan H. Kalicki and David L. Goldwyn, 24 (Washington, D.C.: Woodrow Wilson Center Press, 2005).

⁷ *Ibid.*, 24.

⁸ Kenneth S. Deffeyes, *Hubbert's Peak: the Impending World Oil Shortage* (Princeton, N.J.; Oxford: Princeton University Press, 2001).

⁹ Daniel Yergin, 'Ensuring Energy Security,' *Foreign Affairs* 85, no. 2 (2006).

¹⁰ Hydrogen is not a primary fuel source but a carrier of energy generated by some other source.

¹¹ For a boosterish account of hydrogen's potential, see Vijay V. Vaitheeswaran, *Power to the People: How the Coming Energy Revolution will Transform an Industry, Change Our Lives, and Maybe Even Save the Planet*, 1st ed. (New York: Farrar Straus and Giroux, 2003). For a more technically sophisticated and optimistic report, see Lovins, *Winning the Oil Endgame*, 228-42. For a less sanguine take, see Melanie A. Kenderdine and Ernest J. Moniz, 'Technology Development and Energy Security,' in Kalicki and Goldwyn, *Energy and Security*, 436. See also National Research Council (US). Committee on Alternatives and Strategies for Future Hydrogen Production and Use, National Academy of Engineering, and National Academy of Sciences (US), *The Hydrogen Economy: Opportunities, Costs, Barriers, and R&D Needs* (Washington, DC.: National Academies Press, 2004).

¹² Kenderdine and Moniz, 'Technology Development and Energy Security,' 432-33; Lovins, *Winning the Oil Endgame*; Richard G. Lugar and R. James Woolsey, 'The New Petroleum,' *Foreign Affairs* 78, no. 1, (1999); Timothy E. Wirth, C. Boyden Gray, and John D. Podesta, 'The Future of Energy Policy,' *Foreign Affairs* 82, no. 4, (2003). Corn-based ethanol provided about 50 million barrels of ethanol a year (about 1.6 percent of gasoline consumption) in 2004, Kenderdine and Moniz, 'Technology Development and Energy Security,' 432. A recent study suggests up to one third of global transportation fuel needs could be provided by biofuels by 2050-2100. IEA 2004 quoted in Lovins, *Winning the Oil Endgame*, 104.

¹³ Kenderdine and Moniz, 'Technology Development and Energy Security,' 429.

¹⁴ Lovins, *Winning the Oil Endgame*, 3-4.

¹⁵ *Ibid.*, 8.

¹⁶ *Ibid.*, 12.

¹⁷ Ibid., 2-3.

¹⁸ Kenderdine and Moniz, 'Technology Development and Energy Security,' 430.

¹⁹ Amy Waldman, 'In Today's India, Status Comes with Four Wheels.' *New York Times*, (New York City, NY), December 5, 2005.

²⁰ Amanda Sauer and Fred Welligton, 'Taking the High (Fuel Economy) Road: What Do the New Chinese Fuel Economy Standards Mean for Foreign Automakers,' World Resources Institute, <http://pdf.wri.org/china—the—high—road.pdf>; World Resources Institute, 'Climate Analysis Indicators Tool, version 3.0,' <http://cait.wri.org>.

²¹ World Resources Institute, 'Climate Analysis Indicators Tool, version 3.0,' <http://cait.wri.org>.

²² Kevin Baumert, 'The Challenge of Climate Protection: Balancing Energy and Environment,' in Kalicki and Goldwyn, *Energy and Security*, 486-487.

²³ China has already recognised the importance of fuel efficiency of its fleet and approved standards more rigorous than the US fleet, see Sauer and Wellington, 'Taking the High (Fuel Economy) Road,' 2-3

²⁴ US Environmental Protection Agency, *Light-Duty Automotive Technology and Fuel Economy Trends: 1975 Through 2005* (Washington, DC: 2005), iv.

²⁵ After the first oil crisis, US average fuel efficiency rose from 13.1 miles per gallon (mpg) to 22.1 mpg in 1987, only to fall to 21 mpg in 2005. U.S Environmental Protection Agency, 'Light-Duty Automotive Technology and Fuel Economy Trends: 1975 through 2005,' ii.

²⁶ 2002 statistics reported by Worldwatch Institute, 'Making Better Energy Choices,' Worldwatch Institute, <http://www.worldwatch.org/press/news/2004/07/07>.

²⁷ David Pogue, 'Rivals Turn Up Heat to Challenge Toyota Hybrid Push.' *New York Times* (New York City, NY), January 10, 2006.

²⁸ Greenpeace, 'United Nations Report: Governments Could Remove Barriers to Cheap Energy to Save the Climate,' <http://archive.greenpeace.org/pressreleases/climate/2001mar5.html>.

²⁹ David G. Victor, *Climate Change: Debating America's Policy Options* (New York, N.Y.: Council on Foreign Relations, 2004), 105.

³⁰ Lovins, *Winning the Oil Endgame*, 6.

³¹ Todd Sandler, *Global Challenges: An Approach to Environmental, Political, and Economic Problems* (Cambridge: Cambridge University Press, 1997), 9-10.

³² Sandler, *Global Challenges*, 10-11.

³³ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984).

³⁴ Ronald Mitchell and Patricia M. Keilbach, 'Situation Structure and Institutional Design: Reciprocity, Coercion, and Exchange,' *International Organization* 55, no. 4 (2001): 891-917.

³⁵ Kal Raustiala, 'Form and Substance in International Agreements,' *The American Journal of International Law* 99, no. 3 (2005): 599.

³⁶ Todd Sandler, *Global Collective Action* (Cambridge: Cambridge University Press, 2004), 52.

³⁷ *Ibid.*, 80-84.

³⁸ *Ibid.*, 53-54. These are what Olson termed 'privileged groups' that benefit from collective action. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965), 48-50.

³⁹ Sandler, *Global Collective Action*, 60-68.

⁴⁰ Scott Barrett, *Environment and Statecraft: the Strategy of Environmental Treaty-Making* (Oxford: Oxford University Press, 2003), 228, 379; Sandler, *Global Collective Action*, 224. Barrett contrasts a prominent 1988 EPA study on ozone to economic models that generally show higher costs for dealing with climate change. He reports a benefit-cost ratio for the U.S. of phasing out ozone chemicals at 17:1. This contrasts a global benefit-cost ratio of just 0.33, Nordhaus and Boyer's findings for stabilisation of greenhouse gas emissions at 1990 levels.

⁴¹ On concentrated costs, see James Q. Wilson, *American Government: Institutions and Policies* (Lexington, MA: D. C. Heath, 1980). On the asymmetries of power and mobilisation by large and small groups, see Olson, *The Logic of Collective Action*, 127-28.

⁴² Barbara Koremenos, Charles Lipson, and Duncan Snidal, 'The Rational Design of International Institutions,' *International Organization* 55, no. 4 (2001): 762.

⁴³ Alexander Wendt, 'Driving with the Rearview Mirror: On the Rational Science of Institutional Design,' *International Organization* 55, no. 4 (2001): 1020.

⁴⁴ Koremenos, Lipson, and Snidal, 'The Rational Design of International Institutions,' 768.

⁴⁵ Barrett, *Environment and Statecraft*, xiii.

⁴⁶ Olson, *The Logic of Collective Action*.

⁴⁷ Sandler, *Global Challenges*, 42.

⁴⁸ This is known as 'issue linkage' or 'side payments.' Keohane, *After Hegemony*, 91.

⁴⁹ Koremenos, Lipson, and Snidal, 'The Rational Design of International Institutions,' 765.

⁵⁰ Kenneth A. Oye, *Cooperation Under Anarchy* (Princeton, N.J.: Princeton University Press, 1986), 19.

⁵¹ David G. Victor, Joshua C. House, and Sarah Joy, 'A Madisonian Approach to Climate Policy,' *Science* 309, no. 5472 (2005).

⁵² Sandler, *Global Challenges*, 32. See also Andrew T. Guzman, 'A Compliance-Based Theory of International Law,' *California Law Review* 90, no. 1823 (2002): 1869.

⁵³ Mitchell and Keilbach, 'Situation Structure and Institutional Design,' 901.

⁵⁴ Barrett, *Environment and Statecraft*, 294.

⁵⁵ The chairs of negotiating sessions have had some discretion to ignore dissent and cobble together agreements. Moreover, the large emitters have typically had more influence on the process than others, meeting behind closed doors to seek acceptable bargains that they can then impose on the other parties. States have also tried to create negotiating blocs based on common interest which may facilitate collective action, or at the very least, strong countervailing factions.

⁵⁶ Barrett, *Environment and Statecraft*, 292.

⁵⁷ *Ibid.*, 310.

⁵⁸ Pew Center on Global Climate Change, 'The European Union Emissions Trading Scheme (EU-ETS) Insights and Opportunities,' Pew Center on Global Climate Change, <http://www.pewclimate.org/docUploads/EU%20ETS%20White%20Paper%20Epdf>.

⁵⁹ Barrett, *Environment and Statecraft*, 294.

⁶⁰ Pew Center on Global Climate Change, 'Summary of the COP11 and COP/MOPI in Montreal, Canada, November 28-December 10, 2005,' Pew Center on Global Climate Change, <http://www.pewclimate.org/what-s-being-done/in-the-world/cop11/>.

⁶¹ Oye, *Cooperation Under Anarchy*, 21.

⁶² Bodansky makes a similar point. Daniel Bodansky, 'Bonn Voyage: Kyoto's Uncertain Revival,' *The National Interest* 65, Fall (2001): 46.

⁶³ George W. Downs, David M. Rocke, and Peter N. Barsoom, 'Managing the Evolution of Multilateralism,' *International Organization* 52, no. 2 (1998).

⁶⁴ Emissions for each were as follows: US 23.32 percent, EU 15.71 percent, China 15.28 percent, Russia 6.2 percent, Japan 4.9 percent, India 4.47 percent, Canada 2.09 percent, and South Korea 2.02 percent. Increasing the threshold to one percent of carbon dioxide emissions increases the number of relevant players to 17 and captures more than 85 percent of global greenhouse gas emissions in 2002. Other countries that would be brought in include: Mexico (1.6 percent), Iran South Africa (1.47 percent), Brazil (1.38 percent), Australia (1.36 percent), Indonesia (1.34 percent), Ukraine (1.27 percent), Saudi Arabia (1.25 percent) and Taiwan (1.0 percent). Leaving out the ten new members of the EU would reduce its greenhouse gas emissions only slightly to 13.37 percent. 'WRI, CAIT Climate Analysis Indicators Tool, version 3.0.'

⁶⁵ Kal Raustiala and David G. Victor, 'The Regime Complex for Plant Genetic Resources,' *International Organization* 58, no. 2 (2004): 296.

⁶⁶ The forum, which met for the first time in Sydney in January 2006, includes the US, China, India, Japan, Australia and South Korea.

⁶⁷ These sorts of 'relative gains' concerns have long been the preoccupation of realists. See Stephen Krasner, 'Global Communications and National Power: Life on the Pareto Frontier,' *World Politics* 43, no. 3 (1991).

⁶⁸ George W. Downs, David M. Rocke, and Peter N. Barsoom, 'Is the Good News about Compliance Good News about Cooperation?' *International Organization* 50, no.

3 (1996): 380; Jack L. Goldsmith and Eric A. Posner, *The Limits of International Law* (Oxford: Oxford University Press, 2005); Jana von Stein, 'Do Treaties Constrain or Screen? Selection Bias and Treaty Compliance,' *American Political Science Review* 99, no. 4 (2005): 612.

⁶⁹ Jana von Stein, 'Saving the Environment? Ratification and Compliance in the International Climate Change Regime,' (paper presented at the American Political Science Association, Washington, DC, September 1-4, 2005). Barrett notes evidence to suggest that several environmental treaties (the Montreal Protocol on ozone, the Helsinki and Oslo Protocols on acid rain, and the Sofia Protocol on nitrogen oxides) had little effect on emissions and codified state behavior. Barrett, *Environment and Statecraft*, 10-13, 230.

⁷⁰ Beth A. Simmons and Daniel J. Hopkins, 'The Constraining Power of International Treaties: Theory and Methods,' *American Political Science Review* 99, no. 4 (2005).

⁷¹ Guzman, 'A Compliance-Based Theory of International Law.'

⁷² Raustiala, 'Form and Substance in International Agreements,' 610-12.

⁷³ Miranda Schreurs, 'Policy Laggard or Policy Leader? Global Environmental Policy-Making Under the Liberal Democratic Party,' *Journal of Pacific Asia* 33, no. 2 (1995).

⁷⁴ Victor, House, and Joy, 'A Madisonian Approach to Climate Policy,' 182.

⁷⁵ Victor, *Climate Change*, 109.

⁷⁶ Barrett, *Environment and Statecraft*. Mitchell shows such a standard for oil tankers worked to reduce discharges and proved superior to a pollution limit because of ease of monitoring. Ronald Mitchell, 'Regime Design Matters: Intentional Oil Pollution and Treaty Compliance,' *International Organization* 48, no. 3 (1994).

⁷⁷ William Pizer, 'Climate Policy Design Under Uncertainty,' Resources for the Future, <http://www.rff.org/Documents/RFF-DP-05-44.pdf>. Pizer's work also informed the recommendation of the National Commission on Energy Policy. National Commission on Energy Policy, 'Ending the Energy Stalemate,' <http://report.energycommission.org/newfiles/Final—Report/index.pdf>.

⁷⁸ Donald G. McNeil, 'Better Bananas, Nicer Mosquitoes.' *New York Times*, (New York City, NY) December 5, 2005.

⁷⁹ The prize would have to be of sufficient size to attract innovators but also be credible that the winners would indeed be able to collect if they met the specification. To prevent the politicisation of the prize, some independent committee of experts might be assigned to evaluate nominees. Issues of prize design are developed by Richard G. Newell and Nathan E. Wilson, 'Technology Prizes for Climate Change Mitigation,' Resources for the Future, <http://www.rff.org/rff/Documents/RFF-DP-05-33.pdf>.

The United States, Hegemonic Strategies and World Oil

SIMON BROMLEY

This article explores the relationship between oil and the foreign policy of the United States (US) within the context of the Middle East.¹ Has the need to control oil outside the US driven foreign policy and, if so, what has been the causal relationship? Has the desire to control Middle Eastern oil driven U.S. politics in the region and, if so, to what extent? Furthermore, to what extent has the degree of external engagement and 'control' exercised by the US been necessary simply in order to safeguard oil security? In order to respond to these questions, this article places the relationship between oil and U.S. foreign policy towards the Middle East within its wider historical context, which the paper argues is crucial for a deeper understanding of the relationship.

The article argues that, in practical terms, 'control' matters only to the extent that it allows for technological transfers from the US to the Gulf region, which serves to increase production. Rather than simply being based on oil access *per se*, U.S. Middle East policy has been driven by a much broader hegemonic strategy to create an open, capitalist system throughout the Gulf region, for the benefit of many states and firms. The 'oil motive' has been but one manifestation of this broader strategy. In order to make this argument, the article will, firstly, assess the contemporary literature on the relationship between U.S. foreign policy and Middle Eastern oil. Secondly, it explores the historical transition from U.S. dominance to Middle Eastern primacy in the development of international oil industry. Thirdly, the paper will present a brief history of US-Middle Eastern relations to demonstrate how Cold War considerations shaped U.S. foreign policy in the Middle East during the 1970s and 1980s. It will suggest that the end of the Cold War and diminishing U.S. economic strength necessitated the reformulation of U.S. foreign policy in the region into its current form.

Contemporary Theories on U.S. Foreign Policy and Middle Eastern Oil

In the light of the ascendancy of a group of politicians with close links to the US oil industry in Washington and the second US-led invasion of Iraq in 2003, many commentators have argued that oil plays an important, even

S. Bromley, 'The United States, Hegemonic Strategies and World Oil,' *STAIR* 2, No. 1 (2006): 56-70.

central, role in U.S. foreign policy. Perhaps the most forceful exponent of this argument is Michael Klare who has argued:

What is undeniable...is that President Bush gave top priority to the enhancement of America's power projection capabilities at exactly the same time that he endorsed an energy strategy that entails increased U.S. dependence on oil derived from areas of recurring crisis and conflict. What we have, therefore, is a two-pronged strategy that effectively governs U.S. policy toward much of the world. Although arising from different sets of concerns—one energy-driven, the other security driven—these two strategic principles have merged into a single, integrated design for American world dominance in the 21st Century.²

Indeed, for Klare, "Blood for oil" has, in fact, become a dominant feature of the Bush administration's military policy.³

Others argue that even if the drive for oil *per se* was not the primary reason for the war in Iraq, the US's reassertion of its dominance over the Middle East can still be understood as part of a geopolitical manoeuvre against current and potential economic rivals. A variety of more or less benign reasons are adduced as to why the US has adopted this course of action.⁴ Firstly, U.S. dependence on oil imports is steadily increasing, and this may be seen as the 'Achilles heel' of U.S. power. It is, therefore, in the interests of the US to increase total world oil production and to encourage a diversity of sources of supply. Secondly, in pursuit of this aim, the US can promote the interests of its own oil companies. Due to Organization of the Petroleum Exporting Countries (OPEC) governments' appropriation of ownership of oil reserves—which was far more significant than the much more visible price increases between 1973–1974 and in 1979—the principal consuming nations' oil companies now own only a small fraction of the world's oil reserves and have production access to only about one-third of total reserves. In a report written for the American Petroleum Institute, Edward Porter maintains that the US's most significant role in the international oil industry 'is that of promoting free trade and investment in energy worldwide, and encouraging U.S. firms to participate in that trade and investment to the fullest extent possible.'⁵ Thirdly, the US may have a comparative advantage regarding the military and diplomatic exercise of geopolitical leverage relative to both its allies in Europe and in Japan and compared to its potential rivals in Russia and China. Indeed, this may be as important a channel of U.S. influence in the international oil industry as that which Porter identifies. The routing of pipelines, the policing of shipping lanes and the management

of regional influences all depend heavily on U.S. geopolitical and military commitments.

Finally, to the extent that U.S. companies and U.S. geopolitics—particularly U.S. military power—remain central to ordering the world oil industry, the US provides, in good times, a collective service to other states that enhances its overall international hegemony. In times of conflict, this role would provide the US with a potential stranglehold over the economies of potential rivals. Europe and Japan have experienced this predicament since the end of the Second World War. Current U.S. policy may ensure that China, India and others fall under the same umbrella.⁶ In this respect, control of oil may be viewed as vital for U.S. economic hegemony, and, thus, the logical complement of its declared strategy of permanent, unilateral, military supremacy.

According to this argument, the ‘war on terror’—renamed the ‘long war’ in the Pentagon’s recent *Quadrennial Defense Review*—and the wars in Afghanistan and Iraq are, in reality, part of a global strategy to assert U.S. dominance in the international system. Such a strategy is considered extremely important given the ever-increasing importance of Middle Eastern oil and growing competition with other regions, especially China. The US is using its unquestioned military dominance to buttress its much less impressive economic position. As hegemonic leadership erodes, regional powers will seek to assert their interests, and economic rivalries will emerge. In this context, preventing the emergence of a ‘peer competitor,’ like China, and gaining a stranglehold over the lifeblood of the world economy, namely Gulf oil, can be seen as core objectives for the US government. Given China’s future dependence on oil imports, the latter may facilitate the former. David Harvey states:

Not only does the invasion of Iraq constitute an attempt to control the global oil spigot and hence the global economy through domination over the Middle East. It also constitutes a powerful US military bridgehead on the Eurasian land mass which, when taken together with its gathering alliances from Poland down through the Balkans, yields it a powerful geostrategic position in Eurasia with at least the potential to disrupt any consolidation of a Eurasian power.⁷

While there is something to be said for this kind of analysis, these theorists are in danger of misinterpreting U.S. policy. There is little doubt that U.S. foreign policy is, to some extent, driven by the expansionary forces of ‘capitalists’ seeking new reserves and markets, a rising concern at the state executive level about levels of import dependence, as well as an offensive, inter-imperialist⁸ attempt to control the global oil supply.

In order to address these questions, this paper considers the US's relation to world oil, the development of the international oil industry outside the US, and U.S. policy towards Middle Eastern oil, before concluding with an analysis of the overall character of contemporary U.S. oil policy.

In sum, it could be argued that the US does seek to control world oil, the *form* of that control is very ambiguous. It is, in fact, very different from the kinds of exclusive control over raw materials traditionally associated with the inter-imperial rivalries that existed in the era of European colonial empires. Ownership and investment rights matter for the US and for other countries with major oil companies because they are a means of using technology developed in industrialised countries' firms to increase output in the technologically less developed, resource-rich, but capital-poor regions where the world's oil is concentrated.

The History of the Transition from U.S. to Middle Eastern Dominance

The modern oil industry first developed after the unification of the US national market following the Civil War (1861-1865). Alongside many other factors, an early, rapid and far-reaching shift to oil played an important role in the US's emergence as the predominant consumer society of the 20th century. Oil facilitated: motive power, new kinds of industrial and agricultural possibilities based on synthetic chemicals, urbanisation and suburbanisation, and, perhaps most importantly, mass transportation in both the civilian and military sectors. One indicator of U.S. precocity in these matters was that in 1929, 'Americans owned 78 percent of all the autos in the world.'⁹

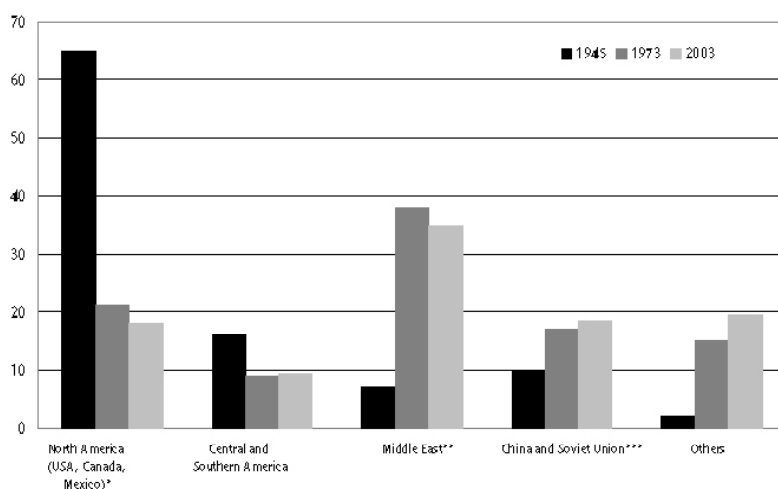
Within the US, the rise of Standard Oil and its divestiture after 1911 established an oligopolistic structure for the domestic oil industry that persisted more or less untouched until the early 1970s. Internationally, the Red Line and Achnacarry Agreements of 1928,¹⁰ in conjunction with prorationing in the US domestic market¹¹, allowed the major oil companies—Aramco, British Petroleum (BP), Gulf, Royal Dutch/Shell and Compagnie Française des Pétroles (CFP, later called Total)¹²—to plan investment collusively, allocating production shares to the various territories in which they had concessions in order to meet projected global demand.¹³ As late as 1972, these companies, five of which were American, controlled 91 percent of Middle Eastern output and 77 percent of the non-Communist world's oil supply outside the US. In this

respect, U.S. companies controlled the vast bulk of the supply of oil to the key allies of the US.

Until the end of the Second World War, the US was, by far, the largest oil producer in the world and was self-sufficient in oil supplies. At the end of the war, the Americas–North, Central and South–accounted for slightly over four-fifths of world oil production. The war, however, marked a turning point, for although U.S. oil provided nearly six-sevenths of Allied oil during the war, it was clear that future supplies to Western Europe–now without access to Soviet oil–and Japan would have to come primarily from the Middle East. The changeover was dramatic; in 1947, Western Europe imported 43 percent of its oil from the Middle East, in 1948, 66 percent and, by 1950, 85 percent, with dollar-denominated Middle Eastern oil production expanding by 150 percent between 1947 and 1950.¹⁴ The overall trends in the shares of world oil production since the ‘war’ are shown in Figure 1.¹⁵

Oil increasingly flowed to Western Europe and Japan at prices below the cost of alternatives (principally coal), sourced to a large extent by U.S. companies. The cheaper cost of Middle Eastern fuel in Europe and Japan facilitated the transfer of substantial elements of the US model of mass consumption and mass production, alongside suburban living based on private transportation, to these countries. Thus, cheap Middle

Figure 1: The Changing Balance of World Oil Production 1945–2003



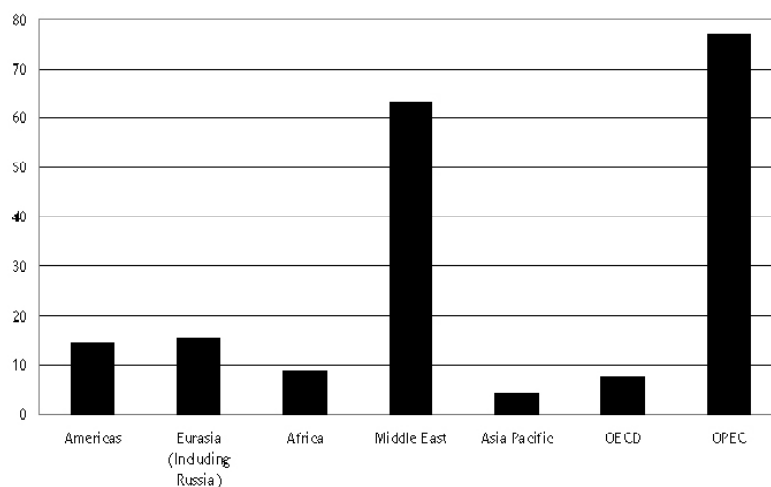
* In 2003, United States 9.2 percent, Canada 3.8 percent and Mexico 5.1 percent. ** Figures for 2003 include Arab North Africa. *** In 2003, Russia 11.4 percent, former Soviet Union (excluding Russia) 2.5 percent, and China 4.6 percent.

Eastern oil played a key role in the processes by which the most advanced economy in the world became a pole of attraction. Other countries sought to emulate and replicate their own national versions of U.S. capitalist society. Of course, many factors played their part in this, but oil certainly lubricated these transformations. The economies and societies of Europe, as well as Japan, were now being reshaped by the more advanced economic order of the US, an order in which the fuel of choice for a mobile, suburban consumer society was increasingly oil from the Middle East and supplied by U.S. firms.

The dominance in world oil production the US held in 1945 now belongs to the Middle East. While it is true that the share of Middle Eastern oil in total world production was only 31 percent in 2004 (a decline from 38 percent in 1973 before the first major price rises), current production figures significantly underestimate the longer-term dominance of the region. One needs to consider that production elsewhere—that is, in the higher-cost regions outside of the Middle East—is being run down at a much faster rate, given the underlying reserve positions.¹⁶ If we look not at current production but at reserves, the longer-term decline of U.S. oil—and, thus, the eventual centrality of the Middle East—is starkly illustrated (see Figure 2).¹⁷ Clearly, OPEC producers and, within OPEC, Middle Eastern producers control the bulk of the world's oil.

A couple of methodological issues can be highlighted. First, published figures of 'proved reserves'—such as in *BP Statistical Review of World Energy*—are defined as 'those quantities that geological and engineering

Figure 2: Percentage Distribution of Total Oil Reserves by Region 2003



information indicates with reasonable certainty can be recovered in the future from known reservoirs *under existing economic and operating conditions*.¹⁸ But economic and technological conditions are not constant. In fact, thus far, the 'virtual' centrality of Middle Eastern oil that would seem to follow from the underlying reserves and reserves to production ratios has never materialised since industry has always been able to find more oil elsewhere.¹⁹ Even if the costs of making this oil available have risen, as recent periods of high prices might indicate, it can be argued that this underlying logic can continue for as long as Middle Eastern producers limit access to their reserves. Second, estimates of proven reserves are notoriously unreliable and subject to manipulation for various economic and political reasons. According to the U.S. Geological Survey, the Middle East's share of publicly identified reserves stands at 54 percent, yet the region may only have 40 percent of ultimately recoverable reserves, and perhaps as little as 30 percent if one includes unconventional sources such as heavy oils, tar sands and oil shale.²⁰

Notwithstanding these considerations, official agencies such as the International Energy Agency (IEA) and the U.S. Department of Energy predict that the supply of OPEC oil—and especially, Middle Eastern OPEC oil—will be critical. World oil production peaked in 1979, at approximately 65 million barrels per day (bpd) and then declined during the 1980s. By 1993, total output had returned to 66 bpd. Since then, output has increased by an estimated 1 bpd each year, such that total world production in 2003 was 76.8 bpd. According to the IEA, world output will increase by 1.8 bpd in 2004 and by 1.7 bpd in 2005.²¹ Against this background, the U.S. Department of Energy's International Energy Outlook foresees a need to increase world oil supply of 43 bpd by 2020 to meet current projections of demand. To put that in perspective, this increase represents nearly four and one-half times the current output of Saudi Arabia or five times that of Russia, and it would represent a total expansion 140 percent faster than that achieved in the most recent period of expansion (1985-2000). It presumes an expansion of OPEC output 75 percent faster, and non-OPEC expansion seven times faster, than that accomplished from 1985-2000. The IEA projections are somewhat more cautious; namely, they predict total world demand will not reach 120 bpd until 2030 (that is, ten years later than the US's estimate).²² It is apparent, therefore, that most of this increase in demand—two-thirds according to the IEA—will come from developing countries. Assuming that these increases in output are achieved, the May 2001 report from the *National Energy Policy Development Group* in the US, led by Vice President Cheney, concluded that despite efforts to increase supplies from

Central Asia, Africa and the Western Hemisphere, the Gulf producers still could be supplying 54 to 67 percent of world exports by 2020.²³

63

The US and Middle Eastern Oil

After the US aligned itself with the conservative, monarchical states in the Middle East and after the British withdrawal 'East of Suez' between 1967 and 1971, the US established a form of indirect control over Middle Eastern oil that replaced British suzerainty. According to Avi Shlaim, Britain's role as the manager of Gulf security had three aspects:

...insulating the region from penetration by other great powers, preventing interstate conflicts such as those between Iraq and Kuwait, and helping local rulers foil military coups and combat subversion. The secret of Britain's success lay in keeping a low profile and a small military presence and, above all, in limiting the supply of arms.²⁴

The US continued this policy of indirect control with the crucial difference that it promoted, rather than limited, the supply of arms to regional allies. This strategy built on the earlier inroads the US made in Saudi Arabia after 1945 and in Iran following the coup against Mossadegh in 1953. However, it also represented a military response to the geopolitical failure to craft a regional anti-Soviet alliance; the US periodically had attempted to form such an alliance beginning with the Baghdad Pact of 1955 up to the Carter administration's efforts following the Soviet invasion of Afghanistan the 1980s. In this period, the major western oil companies controlled production decisions, and U.S. strategy in the Gulf rested on the 'twin pillar' policy of support for Iran and Saudi Arabia. However, the OPEC induced oil shocks (1973-1974 and 1979) and the Iranian Revolution (1979) brought an end to the 'two pillar' approach.

Nevertheless, despite this instability, the US was able to formulate a new type of influence in the 1980s based on an increasingly close alliance with Saudi Arabia and the other Gulf states. Firstly, while U.S. oil imports (including those from the Middle East) were rising, the US was much less dependent on Middle Eastern oil than Western Europe and Japan. European states pursued their own national policies towards the region, which could not match U.S. efforts. Japan had virtually no influence on the region. Geopolitically, the Soviet position was increasingly precarious. Large developing countries, such as China and

India, were not yet significantly involved in a competitive search for energy resources. Secondly, although the Iranian Revolution was a major blow to U.S. power in the region, the mutual ruin of the contending parties in the Iran-Iraq War (1980-1988) nullified this loss somewhat, as did the growing involvement of Pakistan in regional security. Finally, Saudi Arabia and the Gulf states, broadly speaking, exchanged military security for cooperation on pricing and production decisions in OPEC, thereby reconciling their economic interests with those of the oil majors and the major consuming countries.²⁵

These states, especially Saudi Arabia, have an independent economic interest in retaining their long-run market shares, while seeking short-term adjustments to supply in order to influence prices so as to meet their budgetary needs, but in moments of crisis or tight supply they have generally sought to bring stability to the market. Although officially denied, it is widely reported and believed that the US has made some arms sales and defence arrangements with Saudi Arabia conditional on its actions within OPEC.²⁶ The creation of the Rapid Deployment Force (RDF) in 1977 and the promulgation of the Carter Doctrine (1980)—to resist any attempt by a hostile power to control the Gulf—was one key statement of this new dispensation.²⁷ The first U.S.-led war against Iraq (1990-1991) to reverse the invasion and occupation of Kuwait was a direct outcome of it.

Moreover, by the 1990s, two further changes had massively altered the geopolitical landscape and the economic issues at stake. Geopolitically, the Cold War had ended with the dissolution of Communist Europe. The US and its ideology of an increasingly open international capitalist order stood centre-stage, unchecked by any organised bloc of state power. U.S. elevation to sole military superpower, and the enfeeblement of the 'radical' Arab regimes in Iraq and Syria, as well as the involution of the Iranian Revolution, allowed the US to deploy military force directly to the region on an unparalleled scale. Equally, as the protection afforded to statist, protected models of development based on oil rents receded, a steady, if slow, ascendancy of markets and private property took place across the Middle East, which worked in the US's favour. Economically, however, the US now had neither the preponderant resources nor the political incentives to offer oil concessions to its allies; it no longer needed capitalist allies against its Communist adversary, and it could no longer afford to tolerate discriminatory trade and investment practices on the part of its trading partners. In the longer-term, the US faced the prospect of future geopolitical competition from China and India and, perhaps, from a resurgent Russia.

In sum, this begs a number of critical questions. If the US increasingly will be compelled to source its domestic needs from the rest of the world's oil, then how can oil continue to function as a form of material redistribution for its allies? Does the end of the Cold War imply that former allies—as well as continuing adversaries, such as Russia and China—will now become just competitors and, therefore, that mutually advantageous forms of coordination will be increasingly difficult to engineer? What form of international oil industry, if any, might meet these new demands, and what might be the role of the US in structuring this new international oil industry?

The Role of Oil in the New Middle Eastern Strategy

Since the OPEC nationalisations of the 1970s, U.S. policy towards the international oil industry outside its borders has rested on a combination of support for its companies as the producers and distributors of traded oil and cooperative relations with swing producers—especially Saudi Arabia—to stabilise international markets. As Porter has noted, this strategy 'to ensure development of necessary capacity' has 'served well to diversify as well as expand supply sources. This diversification consisted of both a growing non-OPEC market share (during periods of high price) and increasing intra-OPEC competition (during periods of lower price), both of which were promoted by a trade and investment strategy.'²⁸ At the same time, successive administrations have developed the Strategic Petroleum Reserve as a hedge against extreme disruptions to the market. To this end, policy has emphasised encouraging non-OPEC production by securing bilateral investment treaties, pressing for reforms of legal and administrative systems relating to property rights and contracts, and the channelling of executive agency resources (through institutions such as the U.S. Agency for International Development) to favoured projects.

Central Asian oil and gas was never going to be a major alternative to dependence on the Middle East. Against this background, it is important to note that the policy of sanctions against Libya, Iran and Iraq ran directly counter to the logic of U.S. policy in the 1970s, and, even more importantly, it was not effective. Unilateral U.S. sanctions against Iran simply involved non-U.S. companies taking business that might otherwise have gone to U.S. firms. Similarly, in Libya, foreign oil companies returned to the country as U.S. companies were excluded from business. Notwithstanding several Congressional efforts, the US had no success coercing third parties into adopting sanctions; hence, the US failed to

transform its unilateral sanctions into effective multilateral ones. Even the multilateral sanctions against Saddam Hussein were breaking down, such that from 1996 through to the build up to the second U.S.-led war, Iraq was the dominant source of growth in the supply of Gulf oil. In fact, between 1995 and 2001, the supply growth of Libya, Iran and Iraq was 44.6 percent, while that of OPEC as a whole was only 14.5 percent. More generally, there was a tightening of the oil market and a recognition that projected growth of future demand was significantly higher than current rates of supply growth. Thus, creating a suitable investment climate for the major oil companies in areas of new and existing reserves became an increasing priority. The Cheney report recommended that the US 'make energy security a priority of our trade and foreign policy'—a recommendation endorsed by President Bush.²⁹ In effect, that implied, bringing the sanctioned states in from the cold, since taken together they account for approximately one-quarter of total world reserves.

Regime change in Baghdad provided an opportunity to integrate Iraq's oil into international markets and to strengthen the US position in the Gulf order. Saudi Arabian oil reserves are currently around 263 billion (thousand millions) barrels, but this figure is up from 165 billion in 1982. Iraq's current reserves are 115 billion (larger than those of the United Arab Emirates) despite the fact that its industry has been starved of investment since the 1990-1991 war. The U.S. Department of Energy estimated that Iraq's reserves could rise to 220 billion barrels and that another 100 billion barrels may be undiscovered in the western desert. Therefore, Iraq's oil may provide a major addition to world reserves and hence a means of reducing Saudi Arabia's central role as the sole effective swing producer. Before the war in 2003, it was reported that French, Russian, and Chinese companies had deals with Saddam Hussein's regime involving access to some 120 billion barrels of Iraqi reserves—that is, in excess of the currently declared total. Ahmed Chalabi, the Pentagon's original favourite to head a transitional authority in post-invasion, occupied Iraq said that the Iraqi National Congress would not regard itself as bound by these contracts.

There is also an important point about the form of any likely reintegration. Robert Vitalis has spoken of the 'closing of the Arabian oil frontier' to U.S. control in the 1970s and 1980s, arguing that the era of the 1940s and 1950s, 'when Aramco was in effect the kingdom's public works agency and oil ministry and America's private diplomatic and intelligence operation rolled into one' has passed. As Vitalis argues, the 'era of empire...is over for the US in the Gulf...The overseas Arabian oil resource frontier is closed now that the state has secured overarching control inside this zone.'³⁰ I suggested above that things were a little less

clear cut than this and that a form of mutual dependence continues to exist between the US and Saudi Arabia. If anything, the primary concern of the US was not the direct ownership of Saudi oil, since the kingdom has little alternative but to sell it on world markets, but rather the political stability of the state and the wider geopolitical stability of the region. Nevertheless, it remains the case that Saudi Arabia and the other Gulf states are reluctant to open up their oil sectors to foreign direct investment or to equity interests in production. On numerous occasions in the last three years, the Saudi oil minister, Ali Naimi, restated the view that Saudi Arabia does not need foreign investors to develop its industry. The debate in Kuwait is still ongoing.

The large oil companies—that is, ExxonMobil and Chevron-Texaco in the United States, Royal Dutch-Shell and BP of the United Kingdom and Holland, and Total of France—currently produce only some 35 per cent of their sales volume and have ownership rights to proven reserves of a mere 4.2 percent of the world total. Nine out of the top ten of the world's oil companies ranked by reserves are national oil companies. OPEC holds the greatest number of reserves, which is the enduring legacy of the OPEC revolution in which the cartel's governments nationalised their domestic oil reserves. For the US and its oil companies, reversing this trend would be beneficial. It would directly address the companies' search to replenish their proven reserves and hence provide a basis for future cash flows and profits. Even more importantly, it would open OPEC reserves to the competitive pressures of international markets, thereby facilitating the possibility that its levels of output could be determined by market pressures mediated by competition among multinational firms. This would not restore the status quo ante of the OPEC revolution, but it would represent a major break in the political power of the national oil companies in the main producer states.

In this context, Michael Renner concluded, 'If a new regime in Baghdad rolls out the red carpet for the oil multinationals to return, it is possible that a broader wave of denationalisation could sweep through the oil industry, reversing the historic changes of the early 1970s.'³¹ Iran, Saudi Arabia, and the other Gulf states would then face huge pressure to follow Iraq's lead in allowing foreign investment on outsider's terms. However, Iraq has set up a Supreme Oil and Gas Council and is re-establishing the Iraqi National Oil Company. Whoever gets to set the terms of future bargains between the national oil companies of the producer states and the international oil companies of the consuming countries, it remains the case that three-fifths (and rising) of the world's oil is traded on highly integrated markets across national borders and the rest moves on national or regional markets in which prices are aligned

with international movements. The actual route travelled from wellhead to final consumption by any given barrel depends primarily on economic decisions and circumstances beyond the control of governments. Most of it does not flow according to bilateral political arrangements. As this paper has already asserted, ownership and investment rights matter for the US and for other countries with major oil companies because they are a means of using technology developed in industrialised countries' firms to increase output in the technologically less developed, resource-rich but capital-poor regions where the world's oil is concentrated.

Conclusions

The geopolitics of the Middle East matter to the US because it has most of the world's 'proven' oil reserves. The geopolitics of the region have been a constant and growing concern of U.S. foreign policy since U.S. firms first began operating in Saudi Arabia. In my view, the drive to control Iraq's oil was not a key determinant of the war. Rather, the US is using its military power to fashion a geopolitical order that provides the political underpinning for its preferred model of the world economy, that is, an increasingly open liberal international order. U.S. policy has aimed to create an international oil industry in which markets, dominated by large multinational firms, allocate capital and commodities. The US deploys its power not just to protect U.S. firms and national consumption needs but rather to guarantee the general preconditions for a world oil market. The openness and stability of the international oil market are premised on U.S. geopolitical and military commitments. The US is confident that, as the leading economy, it will be able to attain all the oil it needs through trade.

The forward deployment of military power to guarantee the general openness of international markets to the mutual benefit of all leading capitalist states remains. Economically, a central U.S. hegemonic strategy has already lost the ability to determine the shape of this coordination on a unilateral basis. In this world, U.S. *military* power only assists the integration of its core capitalist competitors under its *political* leadership when it is used in pursuit of widely perceived common interests.

Notes

¹ I am very grateful to an anonymous reviewer for helpful comments on an earlier draft.

² Michael Klare, 'Blood For Oil: The Bush-Cheney Energy Strategy,' in *Socialist Register 2004* (London: Merlin Press, 2003), 180.

³ *Ibid.*, 181.

⁴ There are dissenting voices, for instance Stefan Halper and Jonathan Clarke, *America Alone: The Neo-Conservatives and the Global Order* (Cambridge: Cambridge University Press, 2004).

⁵ Edward Porter, 'U.S. Energy Policy, Economic Sanctions and World Oil Supply,' Policy Analysis and Statistics Department of the American Petroleum Institute, <http://api-ec.api.org/filelibrary/sanctionsR.pdf>. Quoted from the Executive Summary.

⁶ On the role of oil in relation to U.S. hegemony in the post-war, Cold War epoch, see Simon Bromley, *American Hegemony and World Oil* (Cambridge: Polity Press, 1991).

⁷ David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003), 85.

⁸ By 'inter-imperialist' I refer to geopolitical actions and policies designed to pursue economic benefits in competition with, and at the expense of, other states.

⁹ Clyde Prestowitz, *Rogue Nation: American Unilateralism and the Failure of Good Intentions* (New York: Basic Books, 2003), 87.

¹⁰ The Red Line Agreement of July 1928 was a production sharing deal among the companies that formed the consortium. The Achnacarry (or 'As-Is') Agreement of August 1928 was a complementary agreement over marketing and pricing, originally concluded among Exxon, BP and Royal Dutch/Shell, though later extended to the other major companies.

¹¹ 'Prorationing' was the officially-sanctioned, organised sharing of demand among independent producers introduced to cope with over-supply and falling prices in the interwar period.

¹² Enrico Mattei, the head of Italy's state owned Ente Nazionale Idrocarburi (ENI), is credited with coining the term 'Sette Sorelle', the Seven Sisters, to describe these companies (minus CFP). However, CFP was in both the consortium that controlled Iranian oil after the Shah's coup against Mossadegh and the Iraq Petroleum Company, but it did not fit with Mattei's characterisation of an 'Anglo-Saxon' cartel.

¹³ See John Blair, *The Control of Oil* (New York: Pantheon Books, 1976).

¹⁴ Edward Shaffer, *The United States and the Control of World Oil* (London: Croom Helm, 1983).

¹⁵ Bromley, *American Hegemony and World Oil*, 86; and British Petroleum, *BP Statistical Review of World Energy 2004*, <http://www.bp.com/liveassets/bp-internet/globalbp/STAGING/global-assets/downloads/S/statistical-review-of-world-energy-full-report-2004.pdf>

¹⁶ Reserves to production ratios—that is, the lifetime of existing proven reserves at current rates of production—are typically an order of magnitude higher in the Middle East OPEC states than in the US.

¹⁷ British Petroleum, *BP Statistical Review of World Energy 2004*.

¹⁸ Ibid., emphasis added.

¹⁹ I am grateful to an anonymous reviewer for clarifying this point and for the term 'virtual' in this context.

²⁰ Eastern Energy Resource Team, 'New Oil & Gas Products & Publications, 2000-2004,' U.S. Geological Survey, <http://energy.er.usgs.gov/>.

²¹ See the article by the IEA's executive director, Claude Mandil, 'Oil: Is the Sense of Crisis Overdone?' *Financial Times* (London), October 19, 2004.

²² International Energy Agency, *World Energy Outlook 2004* (Paris: International Energy Agency, 2004).

²³ For sure, many industry experts believe these kinds of increases in output to be infeasible and many economists question the assumptions underling the specific predictions about increasing demand. However, these are the policy statements of the US government and the principal coordinating body of the main oil consuming nations.

²⁴ Avi Shlaim, *War and Peace in the Middle East* (Harmondsworth: Penguin, 1995), 36.

²⁵ The social and political structure of the Saudi state precluded the development of large-scale domestic armed forces as the ruling family feared that armed forces could engage in a coup against them. Smaller Gulf states viewed the US as providing protection against their larger neighbours, including Iran and Iraq, of course, but also Saudi Arabia.

²⁶ Hartshorn's authoritative account notes that Vice-President George H. Bush, during the Reagan era, intervened with the Saudis when Saudi policy was pushing oil prices too low for the US. In turn, low prices drove high-cost U.S. producers out of the market, 'arguably his single most effective political act while Vice-President.' See J.E. Hartshorn, *Oil Trade: Politics and Prospects* (Cambridge: Cambridge University Press, 1993), 22.

²⁷ The RDF, under U.S. Central Command, was established to intervene in cases of regional conflict that threatened the security of supply of Gulf oil, but after the Soviet invasion of Afghanistan in December 1979, its official, primary mission was to protect the Iranian oilfields against a Soviet attack.

²⁸ Porter, 'U.S. Energy Policy, Economic Sanctions,' 7.

²⁹ National Energy Policy Development Group, *National Energy Policy* (Washington, DC: The White House, May 2001), 3-4.

³⁰ Robert Vitalis, 'The Closing of the Arabian Oil Frontier and the Future of Saudi-American Relations,' *Middle East Report* 204, Summer (1997): 16. For a more detailed discussion, see Simon Bromley, 'Oil and the Middle East: The End of US Hegemony?' *Middle East Report* 208, Fall (1998): 19-22.

³¹ Michael Renner, 'The New Oil Order: Washington's War on Iraq is the Lynchpin to Controlling Persian Gulf Oil,' *Foreign Policy in Focus*, February 14, 2003.

The Oil-Foreign Policy Nexus: A Response To Simon Bromley

71

STEFFEN HERTOOG

Does the United States' (US) thirst for oil cause its military expansionism or are U.S. policies towards world oil just a by-product of its broader imperialist strategies? This is Simon Bromley's main question, and on the basis of a carefully balanced analysis, he seems by and large to favour the second hypothesis. Dispelling the most conspiratorial interpretations of U.S. oil interests with a concise historical account, Bromley does a service to the academic Left and its intellectual credibility. At the same time, Bromley's broader interpretation leaves specific causal mechanisms unspecified, as it is based on a somewhat functionalist understanding of global capitalism's requirements of systemic reproduction.

In the following paragraphs, I do not want to dispute Bromley's fundamental thesis that perpetuation of the capitalist system motivates the US presence in the region. Instead, I will deepen his argument that major global powers have a shared interest in the accessibility of Middle Eastern oil; I argue that this shared interest is a capitalist interest only in the sense that any major power operating in the world today needs imported oil for economic survival, and all major powers currently happen to be capitalist. I question Bromley's assertion that it was a specific economic motivation which made the US attack Iraq and discuss how geopolitical rivalry might return to the Gulf in the shape of competition with more assertive Asian powers in the future.

Bromley rightly points out that most of the arguments about U.S. oil interests in the Middle East are ambiguous regarding how the US controls fossil fuel resources. This touches on a core weakness of the debate and readies us for more nuanced explanations. Classical commodity imperialism is dead indeed. The US did not invade Iraq to permanently install a soldier at every wellhead and certainly not to claim exclusive resource ownership. Iraq and the Middle East, however, would never have acquired their geostrategic significance without their fossil fuel resources. Where does this leave us?

The author argues that the world economic order, which the US wants to defend, depends on Middle Eastern oil, and this is the basis of the US interest in controlling the region. In this sense, it might be impossible to ascribe a unidirectional causality to the relationship between oil

S. Hertog, 'The Oil-Foreign Policy Nexus: A Response to Simon Bromley,' *STAIR* 2, No. 1 (2006): 71-74.

and imperialism, and perhaps we have to settle for an interdependent understanding of the two factors.

It is worthwhile to further probe the nature of the U.S. interest in stable Middle Eastern oil supplies. What would happen if some other world power controlled Gulf geopolitics in lieu of the US? The structural interests of all major oil importers are very similar; they want stable supplies at moderate prices, with enough spare production capacity to function as a buffer in case of local crises. Similarly, any world power would seek political calm within the region.

The nature of the modern oil market leads to similar prices for all consumers whether they are militarily present or not. Local supply failures might lead to short-term shortages in specific consumer areas, but shortages lead to higher prices for everyone in the mid-term. International companies are the primary traders of oil, and as everyone is willing to sell in the mid-term, market mechanisms guarantee that members of the Organisation of Petroleum Exporting Countries (OPEC) effectively sell to anyone who is willing to buy. As Bromley indicates, exclusive economic agreements have become much more difficult to arrange—certainly now that the states of the Arabian Peninsula seem to engage in ‘strategic partnerships’ with any highest bidder.

So why, in principle, does the US have to be present? China and India after all have the same security and stability interests—as opposed to the Soviet Union in Cold War times, which had its own oil supplies and hence could in principle have strangled the US by wreaking havoc in the Gulf.

To some extent the answer to why the US traditionally maintains a heavy unilateral presence in the Gulf lies in the simple fact that no other major power is capable of projecting its force over such a distance. As far as the US is the custodian of the Gulf Cooperation Council (GCC) states’ security, it arguably acts in the general interest of large oil importers. No matter how little they like U.S. unilateralism, India and China would not want Iran or Iraq to invade Kuwait or Saudi Arabia either. In this sense, the US is, for the time being, the custodian of world energy stability.

Insofar as this energy stability is required to defend the world capitalist order, U.S. presence in the region serves to defend the latter—both in its own interest and in that of other oil importers. In this very generic sense, Bromley is right (although large non-capitalist oil importers, if they existed, would arguably also share these basic stability interests with the US). His more specific points on how U.S. interventions serve to spread capitalism seem more brittle.

As far as the upstream energy sectors in the region are concerned, they remain firmly under state control. The US could never have politi-

cally afforded to force Iraq to auction off its oil assets. More generally, state ownership of oil resources has comfortably coexisted with a liberal world economy for decades. Although all major world powers would have great interest in a reopened upstream sector, there is little prospect of such an opening in the Gulf. Current oil prices generate surpluses with which governments can afford to buy any imaginable exploration and production service on the international market without yielding resource ownership.

Also, outside of the oil sector, how Bromley's claim that the existence of pariah states in the Middle East challenges the liberal world economic order functions, remains unclear. Iraq, Iran, and Syria are simply not important enough markets to be much of a geo-economic bounty for anyone (certainly not the US), and they certainly have not offered a credible alternative paradigm to liberal economic hegemony. Iraq in fact embarked on substantive economic liberalisation as early as the 1980s.

The question that remains is why the US took unilateral action in Iraq, going far beyond its traditional role of providing a security umbrella for the GCC. As theoretically unsatisfying as it might be, there seems to be no clear evidence that either control over Iraq's oil or capitalism in general motivated the US government's actions. Rather, the US seems to have implemented its established strategic—and essentially political—tenet of not tolerating any significant hostile power in any important region of the world. This desire for political hegemony combined with the obvious failure of dual containment and the jingoistic atmosphere post-9/11 are what produced the invasion of Iraq.

Iraq does of course derive much of its geostrategic importance from its presence in an oil rich region. This by itself however explains little. To understand the invasion, the specific path-dependent history of U.S.-Iraqi relations since 1990 needs to be taken into account; a peaceful settlement had become structurally impossible for the US without great loss in credibility (much the same can be said about post-1979 relations with Iran). Bringing the Iraqi pariah state's oil back to the market might have been a partial motivation for the war, but if it had been the only rationale, an accommodation with Saddam could have been found as he was willing to open his upstream sector further than anyone else.

So after Saddam has been removed, can we expect great powers' shared interests in access to oil to prevail? The answer could be yes if the global balance of power remained in its current state, with the US as the unquestioned custodian of the Gulf. However, as Bromley hints, Asian powers are emerging on the Middle Eastern scene. Currently,

'inter-imperialist' politics might not be a decisive component of U.S. strategy in the Gulf, and Bromley might be right in dismissing it.

In the long term, however, U.S. presence in the Gulf could, in a worst-case scenario, be useful for physically cutting off China from its oil supply lines if a conflict arose between the two nations. It is unlikely that such considerations motivated the Iraq war, but they could become prominent motivations for maintaining U.S. military presence if the Chinese strength in Eastern Asia and U.S.-Chinese tensions over non-oil issues grow. Energy security seems to have been one reason China has built up its blue water navy, as most Gulf oil exports will be shipped to Asia in the long run.

In this way, political rivalries could be reflected in oil-related great power strategies in the Middle East in the future. The issue would not be permanent, direct control of resources, but geostrategic control of transport lines; such control would allow a nation to undermine access to oil and the prevailing logic of markets in case of escalating conflict.

While this remains speculative and contingent on the (possibly self-fulfilling) strategic plans of US and Chinese leaders, it is already clear that a greater geo-economic presence in the Gulf has become a priority of the two leading Asian powers, China and India. While the US severely mishandled its relationship with Saudi Arabia after 9/11, Saudi Arabia boosted its ties to nations in South and East Asia. King Abdullah's first international tour consisted exclusively of visits to Asian capitals.

As oil exporters perceive Asian powers as much less concerned with political and human rights issues, these powers have emerged as preferred political and economic partners in the GCC. While the upstream sector remains largely inaccessible, there is compatibility between Asian heavy industry and the Gulf's cheap gas and petrochemical feedstocks. While western countries are shielding their stagnating mid- and downstream markets, GCC oil companies are investing in Asian refineries to cater to growing regional fuel demand. The overall scale of exchange is likely to be unprecedented in scale. While the US exhausts itself in Iraq, a new geo-economic axis is emerging. Short of open conflict and as long as oil markets remain open, the Asian powers might not need to have their military on the ground to dominate the Gulf.

LEBEN NELSON MORO

Civil strife has dogged Sudan for most of its independent existence. The first civil war began several months before independence in January 1956 when the *Anyanya* insurgents in the South rebelled against the government with the goal regional secession. In March 1972, the fighting ended with the signing of the Addis Ababa agreement, which sanctioned the formation of an autonomous government for the South. However, the agreement unravelled in 1983 when President Gaafar Numeiry (1969-1985) decreed the division of the South into three regions and, shortly afterwards, imposed Islamic law throughout the country. The war resumed in the same year, spearheaded by a new Southern rebel movement known as the Sudan People's Liberation Movement/Army (SPLM/A). In contrast to the *Anyanya* rebels, the SPLM/A claimed to have taken up arms to achieve a democratic, inclusive and united Sudan.¹ This second insurgency ended with a peace agreement in early 2005, but the deal almost exclusively addressed the grievances of the South. In 2003, the long marginalised Muslim Africans in Darfur rebelled against the government, sparking the third and ongoing civil war.

The bulk of scholarship on the second civil war focuses on the consequences of the country's racial, religious and cultural diversity.² The population of Sudan is estimated to be 32 million, of which 65 percent are African and 35 percent are Arab. Over 70 percent of the population is Muslim, and a large percentage of these are of African descent. Most of the rest follow traditional religions, with 5 to 10 percent following Christianity.³ While it is certainly true that a great deal of the violence in the Sudan has been committed in the name of ethnic and religious affiliations about which proponents claim primordial status, it is also a fact that elites have exploited ethnic and religious identities to secure their political interests. As David Turton points out, '[c]ultural, linguistic or religious difference might be defended and asserted not only as an end in itself but also as a means—and a particularly effective means—to economic and political advancement.'⁴

This article contends that competition between national and Southern Sudanese political elites for control of oil development in Southern Sudan was a major cause of the nation's second civil war. Chevron's discovery of oil in the Upper Nile region of Southern Sudan in 1978 raised tensions between the political elites in the national government and

those in the then autonomous Southern Sudan region. The Southern elites raised arms against the central government to rectify their perceived exclusion from the development of the oil industry. In 1984, the SPLM/A attacked Chevron's personnel and facilities, closing down oil development temporarily. Other western oil companies that invested in Sudan after Chevron, such as the Canadian oil company Talisman, also withdrew or suspended operations mainly due to rebel threats. However, companies from China, Malaysia, India and other Asian countries continued to operate in the country.

To protect oil company operations, the Sudanese government adopted a scorched-earth policy against the Nuer, Dinka and other Southern ethnic groups indigenous to the oil producing regions in order to create a *cordon sanitaire* around the oilfields.⁵ Moreover, the government manipulated ethnic and religious differences in Southern Sudan in order to defeat the rebel forces that were challenging its control of oil abundant territories. Consequently, violent inter- and intra-ethnic fighting in Southern Sudan increased. The government was able to export oil for the first time in 1999 mostly due to the violent expulsion of civilians and success in dividing the rebel forces.

The following section discusses the discovery of oil in Southern Sudan, the Southerners' armed rebellion, and the rebel attack on Chevron. The article then addresses the rebel attempts to disrupt the flow of oil. The penultimate section tackles the expulsion of people from the oil rich areas of Sudan and the part multinational oil companies played in this forced migration.

Discovery of Oil and Resumption of War

Sudan's search for oil commenced in 1959 in the Red Sea Littoral. The country's political elites were hesitant to extend oil prospecting to the South for fear of strengthening separatist trends.⁶ The aim of the first war in Sudan was the establishment of an independent state in the South. Oil prospecting planted fear in the minds of the national political elites as the discovery of resources capable of supporting an independent country would make Southern sovereignty more feasible and more likely. Nonetheless, Southern leaders successfully persuaded the central government to explore for oil in their region during the period of relative peace in the country that followed the end of the first civil war.

In 1974, the Chevron Oil Company was granted a license to prospect for oil in the South and in South-western Sudan. In late 1978, officials

from Chevron and the government in Khartoum announced that oil had been discovered in the Southern area of Bentiu and that the decision had been made to build an oil pipeline to Port Sudan. This news angered the Southerners whose leaders had not received prior notification of the discovery.⁷ Students in Juba, the capital of the South, demonstrated against the export of crude oil through Port Sudan and demanded that the oil be exported through the Kenyan port of Mombasa instead.

Tensions between national political elites and Southerners were further inflamed by a controversy over the North-South border, which was a legacy of British and Egyptian colonialism. In December 1980, the Sudanese National Assembly passed a decentralisation bill that included a map indicating 'obvious and even deliberate encroachment upon the territories that were ostensibly part of Southern Sudan.'⁸ The territories slated for excision from the South and inclusion in the North comprised the oil rich area of Bentiu, the copper rich areas of the Hosfrat El Nahas and the fertile area of Renk. The Southern Assembly took the dispute to President Numeiry who decreed that the South-North border should remain as it was on January 1, 1956, the day of the country's independence.⁹

No sooner had the border problem been settled than another dispute emerged. The central government decided that an oil refinery would be built at the Northern town of Kosti. Ostensibly, the decision was based purely on technical considerations and at the instigation of Chevron. However, Southerners construed it as a premeditated plan to deny their region the benefits from oil development and demanded that the refinery be built at Bentiu. The Southern government had hoped to collect taxes and other revenues from oil exploitation that the Addis Ababa peace agreement guaranteed.¹⁰ Moreover, it hoped that oil would increase employment opportunities and other services in the region. Accordingly, the Southern Assembly adopted a number of resolutions in 1981 disapproving 'of the attitude of Chevron in blatantly and deliberately taking part or side in a politically motivated decision which clearly adversely affects the interest of the people of the Southern Region.'¹¹

In April 1981, President Numeiry ordered the construction of the refinery at Kosti—a decision that excluded the South from any significant benefits from taxes and other revenues related to oil development. As a result, Southerners lost their trust in the president.¹² The disillusionment of Southerners was heightened when Chevron's oil operations base camp was relocated from Malakal, the main town in the Upper Nile region, to the Northern town of El Muglad, purportedly for security reasons.

Furthermore, as Abel Alier points out, Southerners resented the naming of local places and oilfields with Arabic names, ambiguous statements about the location of oilfields (whether in the North or South), discrimination in recruitment for oil management training programmes and the deployment of Northern soldiers to oil rich areas.¹³ In 1981, the central government created the new province of 'Alwahida' (or Unity), comprised of Bentiu and neighbouring, potentially oil rich parts of Northern Sudan. The central government commonly referred to the oilfields as being situated 450 miles south of Khartoum instead of in Bentiu or the South.

Another issue of contention was the absence of transparency in decision making about the development of oil resources. A small group of elites, 'comprising the President, a few palace aides, the Minister of Energy and Mining, Chevron and a few expatriate mediators,' formulated oil policy.¹⁴ The secrecy over oil policymaking 'had more to do with special deals than with operational requirement for confidentiality.'¹⁵ Under Sudanese law, 'oil contracts [were] supposed to be entered into by the Petroleum Affairs Council and ratified by Parliament. An amendment to the law conferred all powers to grant licenses and enter into production-sharing arrangements on the Minister and the President.'¹⁶ Thus, the national political elites intended to take total control of oil revenues and expenditure.

In June 1983, President Numeiry decreed a 're-division' of the South into three regions: Equatoria, Bahr El Ghazal and Upper Nile—an act which deprived Southerners of the strong political institutions that they used to challenge oil policies. In September, another decree was issued imposing *sharia* over the whole country. The predominantly non-Muslim Southerners experienced an erosion of their political position with the increased Islamisation of state institutions. Abel Alier accurately argues, 'oil contributed to the abrogation of the Addis Ababa Agreement,' and that, 'when the armed conflict erupted in 1983, the Chevron oil company installation became [an] important focal point for a ferocious contest of wills between the warring parties.'¹⁷ In 1984, the SPLM/A killed three of Chevron's workers.¹⁸ Chevron sold its oil interests to Arakis, a small Canadian company that was later sold to a larger Canadian corporation called Talisman. However, Talisman's investment in Sudan sparked a significant backlash from human rights organisations. Under pressure from human rights campaigners, Talisman sold off its investment to ONGC Videsh Ltd. of India. The other main players in the Sudanese oil industry are Chinese, Malaysian and Sudanese companies. These multinational companies contributed to the success of Sudan's quest to become an oil producer.

Sudanese oil production began at 150 thousand barrels per day.¹⁹ Sudan's recoverable reserves are estimated to be more than 800 million barrels, and the total reserves are estimated to be between 600 million and 1.2 billion barrels.²⁰ President Omer El Bashir's Islamist regime, which assumed power in 1989 following the overthrow of Sudan's elected government, described the oil as, 'a sacred gift to the faithful.'²¹ In this context, 'the faithful' seemed mostly to comprise a small group of Islamic fundamentalist elites and their loyalists.

Oil brought a huge injection of funds into the Sudanese economy at a time when the country's debt burden was 250 percent of its estimated Gross Domestic Product.²² The International Monetary Fund (IMF) lifted the sanctions it had imposed on the country for non-payment of its debts in August 1999, in the same month that oil was exported for the first time.²³ In 2000, the IMF announced that Sudan had commenced repaying its debts, and, as a result, its IMF voting rights were reinstated.²⁴ More importantly, oil improved Sudan's credit rating, allowing it to borrow despite its US\$21 billion debt.²⁵ Ironically, the benefits from oil development have enabled the government to pursue other projects that have caused the displacement of large numbers of people elsewhere in the country. For instance, work was restarted on Merowe Dam, which lenders had refused to fund before oil began flowing. With assured repayment from oil revenues, Middle Eastern financial institutions granted loans to go ahead with the controversial project. Security forces persuaded or compelled more than fifty thousand Nubians to relocate to a new site to make way for the dam.²⁶

However, the government has had to contend with opposition from Sudanese who feel excluded from the benefits of oil development. Many Southerners believed that the regime exploiting the oil lacked legitimacy.²⁷ Many people in the North also objected to the regimes' use of oil. The armed opponents of the regime repeatedly declared their intention to halt oil flow through sabotage and made good on their intentions on several occasions. In May 2000, the Beja Congress launched an offensive against the oil industry, destroying portions of the oil pipeline near the Northern town of Atbara. The rebel group took up arms because of the marginalisation of the Beja of Eastern Sudan. The Beja Congress attack was followed by SPLM/A attacks; in January 2001, several wells were set ablaze after the rebel group attacked again.²⁸ By September 2001, the SPLM/A announced that it had brought oil flow to a complete halt.²⁹ A press statement from the SPLM/A claimed that the sole reason for the

attack was to bring about 'a halt to development of the oil industry as oil exploration and development [had] resulted in massive displacement of people.'³⁰

The government used its army and militias to drive away the people in the oil rich areas. Human Rights Watch estimated that 204,500 people were internally displaced within the oil rich part of Southern Sudan, between mid-1998 and February 2001.³¹ The population of the town of Bentiu increased from seven thousand to fifty thousand in only two years.³² Moreover, the United Nations (UN) Office for the Coordination of Humanitarian Affairs (OCHA) reported that between October 2002 and February 2003 an estimated 110 thousand to 180 thousand persons were displaced or 're-displaced' in Western Upper Nile/Unity State.³³ The government army and militias collaborated with oil companies in this population expulsion.

Government and Militia Forces

With oil revenues, Sudan equipped its army with sophisticated weapons. Before falling out with President al Bashir, Hassan Al-Turabi, the former ideologue of the regime, announced that Sudan would use its share of oil revenues to produce weapons, tanks and missiles.³⁴ The government began acquiring arms using loans against future oil revenues. In 1996, Sudan obtained SCUD missiles from China 'in a deal underwritten by a US\$200 million Malaysian government loan against future oil extraction.'³⁵ Sudan received twenty Polish T-55 tanks on the same day it exported oil for the first time.³⁶ Between 2001 and 2002, the government purchased sixteen attack helicopters from Russia, more than tripling its fleet.³⁷ Thus, oil enabled the government to prosecute the war in the South with increased vigour.

However, the Sudanese government's use of oil has more to do with its ability to manipulate ethnic and religious differences than with the fighting capacity of its army. The end of the Cold War provided the government with an advantage in the military confrontation with rebels. The overthrow of Mengistu Haile Mariam's government in Ethiopia in 1991 eliminated an important supporter of the SPLM/A. Mengistu's regime had provided the SPLM/A with guns and other supplies, but, more crucially, it had allowed the movement to use Ethiopian territory as a rear base for military operations inside Sudan. Ethiopia's support for the SPLM/A was undertaken in retaliation for Sudanese support for Ethiopian rebels. This regional conflict had an international dimension

in the Cold War context; the former Soviet Union propped up Mengistu's regime, while the United States (US), which was bent on undermining the Ethiopian and Libyan regimes, supported President Numeiry's government. Numeiry's government became the second largest recipient of U.S. economic aid in Africa after Egypt. The U.S. interest in Sudan was also related to Chevron's involvement in the country.³⁸

The overthrow of Mengistu not only caused the SPLM/A to lose a loyal backer, but it also led to a resurgence of disunity within its ranks. In 1991, the SPLM/A split along ethnic lines, producing separate Dinka and Nuer factions. Moreover, factions have also emerged within ethnic groups. The Nuer, for example, have split into factions that strongmen, such as Paulino Matip and Riak Machar, lead, and these leaders have changed sides between the government and the SPLM/A a number of times. The government assigned some Nuer factions to guard oilfields and often encouraged them to fight other factions. This 'divide and rule' policy had catastrophic consequences for civilians. According to Amnesty International, more people died in inter-factional fighting among Southerners than in armed encounters with government forces.³⁹ Most of the victims were non-combatant Sudanese.

Nonetheless, the government does not fully trust the Southern militias allied to the regime. Instead, its most loyal proxies are Arab militias that are mobilised along religious and ethnic lines. Drought and the expansion of mechanised farming have compelled some of the Arab militias to migrate from their original homelands;⁴⁰ therefore, their attacks are partly aimed at securing new homelands or resources such as grazing lands and watering points. In the Nuba Mountains, attacks against both Muslim and non-Muslim Nuba people caused the death and displacement of tens of thousands.⁴¹ The displaced Nuba have been driven into 'peace camps' where they provide cheap labour in mechanised farms that the national political elites and their supporters own.⁴² The manner in which the Arab militias, themselves marginalised by the national political elites, have been manipulated into targeting other marginalised groups suggests that political elites mainly mobilise ethnicity and to serve their own interests.⁴³

Famine is one of the major weapons that the government and its allies against use against those who are not under their direct control. For instance, the Sudanese government, militias and rebel forces precipitated famine in Southern Sudan in 1998, deliberately looting or diverting food and blocking relief supplies; these actions put about 2.6 million Sudanese at risk of starvation.⁴⁴ The government forces and militias created the famine through violence and frequent stoppages of aid flow. The Sudanese government's obstruction of relief affected the nation's oil

rich areas the worst. The following section discusses the complicity of oil companies in these policies and the forced migration that resulted from them.

Oil Companies and Human Rights Abuses

Chevron began operations in Sudan in peacetime but abandoned its promising investments in the Heglig and Unity oilfields. Florence Fee, the former executive of Chevron in Sudan, writes in *Africa Analysis* that Chevron made 'a painful and honourable decision' to walk away from Sudan.⁴⁵ Chevron's withdrawal was indeed painful because it had to sell off its investments at a loss and, more importantly, had to forfeit future profits; but the decision was not honourable. This is evident in Chevron's financing Misiriya Arab militias in an attempt to protect its oil interests.⁴⁶ In 1984, these militias overran the Nuer of Bentiu, surrounding the oilfields.⁴⁷ According to Abel Alier, '[all] oilfields areas were practically cleared of civilians in 1985-86.'⁴⁸

The gap Chevron's departure created and the US imposed ban on investment in Sudan that was part of the 1997 sanctions on the country for its role in international terrorism gave a competitive advantage to Canadian, European and Asian companies. Arakis Energy Inc. acquired Chevron's oil interests in Sudan. Family ties also played a part in this organisation's involvement in the country. According to Bona Malwal, the Pakistani-born Chairman of Arakis, Lutfur Khan, was the son-in-law of a former Sudan Minister of Finance, Abdel Rahim Hamdi, who was also a director of the Al Baraka Bank in Saudi Arabia.⁴⁹ Bona Malwal further states that Khan used his family connections to secure capital from Gulf countries for the Sudan investment.⁵⁰ Arakis later became part of the Greater Nile Petroleum Operating Company (GNPOC) with a 25 percent stake. The other companies in the consortium were the China National Corporation (40 percent), Petronas Carigali Nile Ltd. of Malaysia (30 percent) and Sudapet Ltd. (5 percent).

Arakis' relationship with the pariah regime in Sudan made international news. To make the relationship appear like 'a normal run-of-the-mill deal' and mollify rising U.S. opposition to oil development in Sudan, it tried and almost succeeded in bringing on board a reputable U.S. company.⁵¹ Arakis persuaded the Occidental Petroleum Corporation of California to become a partner in the oil project. U.S. companies were eager to participate in the potentially lucrative oil business in Sudan, but the US government ban remained a stumbling block. Sudan was under

immense pressure from the US government as it had been included on the State Department's list of countries sponsoring terrorism. However, Occidental and Arakis circumvented this hurdle by persuading President Clinton to sign an executive order exempting Occidental from the ban. Ironically, Sudan rejected the involvement of the US company in its oil industry because of the US military attack on the Al-Shifa industrial complex; this attack was in retaliation for Sudan's alleged involvement in the simultaneous bombing of U.S. embassies in Kenya and Tanzania in 1998. This was not the first time that oil interests had put the US in an embarrassing situation. In the 1980s, for example, the Angolan government brought in Cuban troops to protect Gulf Oil installations against the *União Nacional pela Independência Total de Angola* (UNITA) rebels. In effect, Communist troops were protecting U.S. companies from U.S. backed rebels.⁵²

Security was another concern for Arakis. Reportedly, the company contracted mercenaries belonging to the South African Executive Outcomes (EO) group.⁵³ Embarrassed by the allegation, South Africa launched an investigation and imposed a ban on Petro South Africa, the national petroleum company, from investing in Sudan.⁵⁴ Arakis may have sought the help of former members of EO because the group, which was the world's largest 'mercenary group' before it dissolved itself in December 1998, had provided impressive services to ruling elites in Angola and Sierra Leone and their business collaborators in multinational corporations. EO mercenaries, who were former members of an apartheid era South African force charged with the destabilisation of the Southern African region in the 1980s, contributed to the defeat of rebels in Angola and Sierra Leone. H.H. Howe argues that Heritage Oil and Gas played a crucial role in the establishment of relations between EO and the Angolan and Sierra Leonean regimes.⁵⁵ In addition, he says that the mercenaries were paid \$US40 million, and that in return they provided security to multinational corporations involved in oil and mineral extraction and guaranteed the flow of revenue to Angolan elites. The benefit to Sierra Leonean leaders and their international investors was the recapture of the bauxite mines from rebels, which resulted in huge payments to the mercenaries. These 'corporate dogs of war' grew rich indeed.⁵⁶ The fact that the leaders of Angola and Sierra Leone resorted to contracting the EO group is an indication of the weakening of the African state in the age of globalisation. H.H. Howe highlights this point, suggesting, 'EO may be far more than an effective intervention force, and serves as a military wing of a multinational organisation, in an era of worldwide privatisation, is obtaining significant influence within fragile states.'⁵⁷

Arakis, unable to raise more funds, sold its investment in the GNPOC to Talisman Energy Inc. in October 1998 and received 278 million Canadian dollars.⁵⁸ Talisman's involvement in Sudan aroused even more opposition than that of Arakis. Civil society organisations employed intensive oppositional strategies against Talisman and human rights organisations worked hard to expose the complicity of Talisman in human rights violations. For example, in 2001 Canadian and British non-governmental organisations, including the Canadian Auto Workers Union, the Simons Foundation, the United Church of Canada Division of World Outreach and World Vision Canada, commissioned a report to investigate Talisman's operations in Sudan.⁵⁹ The report revealed an increase in the number of recorded helicopter attacks on settlements in and around the oil rich areas in what appeared 'to be a renewed Government of Sudan strategy to displace indigenous non-Arab inhabitants from specific rural areas of the oil region in order to clear and secure territory for oil development.'⁶⁰ A Canadian government commissioned report also found Talisman complicit in government evictions of civilians in the oil rich areas and other violations of human rights.⁶¹ It reported that Canadian chartered helicopters and fixed-wing aircrafts shared facilities with helicopter gunships and Antonov bombers belonging to the Government of Sudan. The report further said government fighter planes 'armed and re-fuelled at Heglig and from there attacked civilians.'⁶² The United Nations' Special Rapporteur for the Situation of Human Rights in Sudan reported in May 1999, 'government bombers, helicopter gunships, tanks and artillery were used against unarmed civilians to clear a 100-kilometer area around the oilfields.'⁶³ In addition, roads the oil companies built facilitated the movement of government military vehicles, and amphibious vehicles belonging to oil companies were used to construct roads across rivers, facilitating troop movements.⁶⁴ The Canadian Foreign Minister acknowledged that Talisman's activities in Sudan fuelled fighting and human rights violations but said that the government would not intervene against Talisman.⁶⁵ This indicated that economic considerations took precedence over human rights concerns.

Some of the intense pressure on Talisman originated from the US. In June 2001, the U.S. House of Representatives adopted the Sudan Peace Act, which contains a provision outlawing the listing of the shares of companies dealing in Sudan's oil on the New York Stock Exchange. However, the version of the bill that passed the US Senate and that was signed into law excluded the capital sanctions provision, owing to the Bush administration's opposition. If the original version of the bill had become law, Talisman would have been barred from raising money in

the US.⁶⁶ Likewise, the major Chinese company operating in Sudan would have been prevented from raising funds in the US.

In November 2001, the Presbyterian Church of Sudan and one of its pastors brought a lawsuit on behalf of the residents of the oil rich areas against Talisman under the Alien Tort Claim Act for the company's part in the human rights abuses in Sudan. The Alien Tort Claims Act allows the trial of non-U.S. citizens for serious crimes, such as murder and torture, committed against individuals, even when the crimes are committed abroad. In March 2003, Judge Allen G. Schwartz of the US Federal District Court held that Talisman had to answer for its operations in Sudan.⁶⁷ Talisman claimed that a corporation could not violate international law as international law only applies to states, but the judge rejected this argument, allowing the case to proceed to the discovery stage.

In March 2003, less than a week before the court's decision, Talisman sold its 25 percent stake in the GNPOC to ONGC Videsh Limited, a subsidiary of Oil and Natural Gas Corporation Limited, India's national oil company, for 1.2 billion Canadian dollars.⁶⁸ Oil production had risen to 240 thousand barrels per day, but the Talisman executive said the company had to leave because 'political risk in-country and in North America had reached a degree that was unacceptable for 12 percent of our production.' Although the campaign by human rights groups apparently paid off, this example shows that although western multinationals may succumb to domestic pressure and relinquish their share in controversial developments, this will not necessarily result in any improvement to the local situation; it results only in a change of ownership.

In this case, Asian companies simply filled the places western companies vacated. China, with its tarnished human rights record, has become the main investor in Sudanese oil and the main state protecting the Sudanese regime from criticism. According to the International Crisis Group, '[the Chinese] have a vested interest in the continuation of a low level of insecurity. It keeps the other major investors out.'⁶⁹ As a result of its rising need for oil from abroad to sustain its economic growth, China has a vested interest in keeping in power pariah regimes such as Sudan's. Accordingly, it has used its position in the UN Security Council to block any action against Sudan. In the Sudan, China allegedly deployed four thousand troops to guard the oil pipeline.⁷⁰ However, China's presence in the oil rich areas remains controversial. In May 1999, Nuer militias took captive twenty-three Chinese technicians working on the pipeline.⁷¹ More recently, militias abducted and killed two Chinese workers.⁷² These attacks are indicative of the risks the Chinese have to face. However, it is

clear that the Chinese and other companies operating in Sudan consider the risks well worth taking.

Conclusion

The contention in this article is that the development of oil in Southern Sudan was a major cause of the second Sudanese war. The desire to control oil resources heightened competition between political elites in the national government and those in the then autonomous Southern Sudan region. The first victim of this contest was the Addis Abba agreement that ended the first Sudanese civil war, which was abrogated in 1983, followed by the imposition of *sharia* law across Sudan.⁷³ These steps were aimed at diminishing the political power of the Southerners in order to deny them any say in oil policy. In the same year, Southern elites formed the SPLM/A. In 1984, the SPLM/A commenced military operations by targeting Chevron, which later closed down its activities in Sudan for good. The western oil companies that followed Chevron, such as Talisman, also had to withdraw or suspend operations because of security concerns and a concerted campaign by human right activists. The remaining oil companies in Sudan are from China, Malaysia, India and other Asian countries with poor human rights records.

After several years characterised by a lack of any tangible progress, Sudan exported its first oil in August 1999. Rebel groups sabotaged the oil installations on several occasions. In response to the threat rebels posed, the government and its allied militias launched devastating attacks against Nuer, Dinka, Nuba and other civilians in an attempt to deny the rebels support. Furthermore, the government successfully manipulated existing animosities between Nuer and Dinka tribesmen in order to sharpen factionalism within the rebel ranks. This South-on-South violence claimed more lives than the main war between the government and the SPLM/A.⁷⁴

The second Sudanese civil war ended in January 2005 with the signing of the Comprehensive Peace Agreement (CPA) that, among other things, guarantees Southerners a half share of oil revenues. However, the survival of the CPA will depend to a great extent on the good faith of the parties in implementing the oil sharing deal.

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‘Oil, War and Forced Migration in Sudan’: A Response

91

RICHARD BARLTROP

There is much of interest in Leben Nelson Moro’s article, and it is a worthwhile contribution to research and debate on Sudan’s civil war and the role of oil in such situations. Given the complexity and long duration of that war, it would be surprising if there were not some factual errors in the article or contentious points. However, in the spirit of academic (but friendly) scrutiny, it must be said that Moro’s central argument—namely that oil was ‘the main cause’ of the civil war between 1983 and 2005—is wrong. It is wrong because the facts do not support the claim and because it is an unnecessary simplification: while it is true that oil was a major point of contention from the moment it was first discovered in Sudan in 1978, it was nevertheless only a contributory cause of the civil war—not the *main* cause—and its causal role changed during the long sweep of the war.

Oil the ‘Main Cause’ of the War? No

Moro is clear about his central argument. The article, he says, ‘argues that competition between national political elites and Southern elites for control of oil development in Southern Sudan was the main cause of the second civil war in Sudan (1983-2005).’ In his conclusion he restates the claim, saying, ‘the development of oil in Southern Sudan was the main cause’ of the war. To support the argument, Moro recalls some of the history of oil development in Sudan before the war, which is essential for understanding the role of oil in Sudan’s war. He also examines oil’s role in the peace agreement signed in 2005, which any oil company doing business in Sudan today would be wise to know.

However, as with many mono-causal arguments, or crude ‘greed not grievance’ explanations of civil war, the claim necessitates excluding other causal factors that are simply wrong to exclude. In the case of Sudan, these can ultimately be summarised as political and economic inequality. These two broad but fundamental causes had manifestations ranging from representation in and control of public offices, to levels of basic service provision, infrastructure and development. Oil, or the

control of actual or potential oil production and revenues, was just one manifestation of these fundamental inequalities, albeit that for Southern Sudan oil became the most valuable natural resource at stake in the war.

In some cases, the events Moro uses to try to support his claim in fact reflect the more fundamental political and economic causes behind the outbreak and continuation of Sudan's war. Thus, for example, the abrogation of the 1972 Addis Ababa Agreement and the imposition of *sharia* law in 1983 were both important factors, but they were not primarily motivated by the objective of controlling oil development. Instead these acts were the result of a critical shift in power sharing in the central government following the 'national reconciliation' in 1977 with northern opposition parties that had not been signatories to the Addis Ababa Agreement. Oddly, too, Moro ignores the judgment of one of the sources he himself rightly uses, Abel Alier, a prominent Southern intellectual who was vice-president until 1981 and president of the South for some of that period. As Alier accurately writes, 'There can be no doubt that oil became a considerable factor in Sudanese politics and contributed in no small way not only to the intensification of North-South conflict but also to the internationalisation of that conflict.'¹ Alier, who was a witness to oil negotiations and developments before the outbreak of the war, does not argue that oil was the 'main' cause.

These points aside, Sudan's other civil wars, or the other fronts and periods of its overall war (depending on your perspective), also illustrate Moro's error. In the first civil war, which ran until 1972, oil was not a factor at all, as it had not yet even been discovered. In the Darfur conflict, which escalated in 2003 and continues today, oil has not been a significant cause, for although it is known that some oil reserves almost certainly lie in parts of South Darfur, they have not been exploited yet nor have the Darfur rebel groups focused their grievances on the oil potential. The same applies for the simmering conflict in Eastern Sudan and the rebel groups there.

Oil as a Focus of Fighting

Nonetheless, Moro is right to draw attention to the connection between oil, war and forced migration, which was egregiously demonstrated during the late 1990s and early 2000s in Western Upper Nile (or Unity) state in Southern Sudan. There are specific points in Moro's account that can be queried or rejected. One is the claim that some of the areas worst affected by the Sudanese government's obstruction of relief

were the oil-rich areas (in fact, the government frequently obstructed relief access in non-oil areas with severe humanitarian consequences). Another is Moro's claim in his conclusion that 'South-on-South' violence claimed more lives than the war between the government and the Sudan People's Liberation Movement/Army (SPLM/A). This claim is certainly wrong and is not substantiated, despite Moro's apparent attribution of it to an Amnesty International report. However Moro gives a good account of western oil companies in Sudan in this period and of the relationship between their exploration activities, forced displacements and the pressure that they faced in Canada, the US and Europe.

There are many interesting questions that Moro's article does not have the space to explore, including the policies of oil companies and the consequences of the withdrawal of western oil companies from Sudan. For example, what, if anything, can oil companies (or other companies) that choose to work in areas of civil war do to prevent becoming complicit in human rights abuses? In the case of Western Upper Nile, although some western oil companies pursued 'community development' projects under the banner of 'corporate social responsibility', this did not prevent their exploration and production activities from becoming tied up with forced clearances of civilians and other abuses. On balance, the example of Sudan amply illustrates the ethical folly of doing certain kinds of business, such as oil exploration and production, in a zone where the controlling power is prosecuting a vicious civil war. In the case of Sudan, the fact that the Chinese and Malaysian oil companies that replaced western oil companies paid little or no attention to human rights concerns does not alter this judgement. Those companies—thanks to which Sudan's oil industry really took off after 1999—are deeply implicated in the fighting and abuses in the areas of their oilfields, as well as in the provision of a massive source of revenue to a malignant government.

Oil as a Cause for Making Peace?

The government and the SPLM/A's signing of the wishfully-named Comprehensive Peace Agreement (CPA) in January 2005 begs one question, which Moro does not treat but that provides a counterpart to his central argument; what was the role of oil in Sudan's peace process?

During the long, internationalised peace process between 2002 and 2005, which culminated in the CPA, some observers and participants

in the peace talks raised the possibility that oil had become a motivating factor for making peace. Some journalists also argued that oil had become a major factor in making peace.² I do not know any academic work that has yet made the claim that oil was *the* determining factor for peace, but the proponent of such a reductivist claim would have their work cut out. For in truth, although oil did contribute slightly to the momentum for resolving the conflict, along with other factors, it also remained a reason for continuing to fight. Indeed, neither the government nor the SPLM/A were in a hurry to end the war, and the peace process was pushed forward largely at the instigation of the international mediators. It would therefore be quite wrong to claim that oil 'fuelled' the peace process.

Nonetheless, oil was certainly one of the many sensitive issues at stake in the peace negotiations, along with self-determination for Southern Sudan, power sharing, security arrangements, the future of three border areas between Northern and Southern Sudan, and the position of religion in the national constitution. Oil was more important to the negotiations than it would have been five years before because of Sudan's rapidly growing oil revenues and the expectation of much more potential growth. In 2003, the government's net share of national oil export revenues surpassed US\$1 billion for the first time; in 2005, its share surpassed US\$3 billion.³ As a result, as Moro alludes to, arrangements for oil revenue sharing were the critical part of the wealth-sharing agreement, which itself was a central part of the CPA.

Oil and Sudan's Future

Large and growing oil revenues are now a reality in Sudan, and oil is the country's largest and most profitable export by far. As a result, oil is certainly set to play a significant role in the future of conflict and peace in Sudan, and in the shape of the state and the governing institutions. Already, as Moro notes, the survival of the CPA depends in part on the good faith of the parties in implementing the oil revenue sharing arrangements (though it also depends on a number of other important factors). Unfortunately, the combination of billions of petrodollars, an utterly corrupt and undemocratic ruling National Congress Party (NCP), and little transparency and accountability, is set to give the NCP plenty of scope to cheat on the arrangements without the SPLM/A, foreign oil companies or the international community bringing them to account. Actual or potential oil rent is also set to continue to motivate militias and

rebel movements in the Southern oil fields. Meanwhile, within several years (or sooner), oil revenues from fields in Darfur and Eastern Sudan may be a reality rather than just a potential, thereby adding to the sensitivity of central-regional oil revenue sharing arrangements.

This outlook means that questions about oil in domestic and international politics will remain as relevant to Sudan as ever, and the case of Sudan will remain relevant to theories about the role of oil in foreign policy, conflict and development. Of particular interest will be the question of what oil has done for economic and human development in Sudan, and what it is likely to do over the next decade and more. As a new oil producer, so far Sudan looks more like the kleptocratic oil state model seen in Nigeria, than the rentier state model seen in the Gulf states. Whether Southern Sudan remains a semi-autonomous region or becomes an independent state, it will be a challenge for it not to follow suit. Furthermore, the role of oil in Sudan's development should concern the international community as much as the Sudanese public, most of whom rightly complain that they have seen few benefits of Sudan's oil revenues. In 2006, national net oil export revenues are likely to exceed US\$4.8 billion, which will be well over twice the US\$1.7 billion that the UN appealed for in humanitarian and development assistance funding for the year 2006.

In theory, it is therefore in the interest of international donors and Sudanese alike to scrutinise what the Sudanese government does with its money. In practice, however, attempts to win business contracts in Sudan (including for oil exploration and production), and efforts to gain Sudanese cooperation in the US 'war on terror,' are likely to temper pressure from major Western donor governments in this regard. Whether this will change in the future remains to be seen. In the meantime, it seems very unlikely that the governments of the increasingly energy-hungry China and India or their oil companies—which are now so significant in countries such as Sudan—will be interested in tempering their energy policies to contribute to good governance where it is most wanting.

Notes

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³ The sharp increase in revenues was due to an expansion in average daily output from 240,000 barrels per day (bpd) in 2003 to 400,000 bpd in 2005, and a near doubling in average oil prices over the same period.

Angola's Rise to Regional Power: A Theoretical Approach on Oil and Conflict in Central-Africa

NILS DUQUET

The Angolan soil is rich in natural resources, especially oil and diamonds. Despite this wealth the country is ranked at the bottom of the United Nation Development Programme (UNDP) Human Development Index and has been the scene of one of the world's longest running and bloodiest civil wars in modern times. Liberal thinkers assume that oil revenues will transform Angola into an economically stable, democratic and peaceful society. They believe that the oil industry in Angola will play a pacifying role and discourage the outbreak of armed conflicts. Yet others claim that oil revenues do not create peace but rather more conflict. Several theories have been developed that offer insight into the potential conflict-promoting role of natural resources in general and oil in particular. This article will test both the liberal view and theories on the conflict-promoting role of oil. After giving an overview of the basic tenets of the different theoretical views on the relationship between oil and armed conflicts, the article will analyse the different phases of the Angolan civil war as well as the impact oil had on the conflict and on Angola's rise to regional power. The final section will analyse how oil interests have shaped the contemporary political-military situation in Central-Africa and how oil companies and other important players in the region have responded. First, however, the article provides an overview of the Angolan oil industry.

Overview of the Angolan Oil Industry

Angola has a long history of natural resource exploitation. The first natural resource that Angola exported was its inhabitants. An estimated four million slaves were 'exported' to plantations in the New World between 1500 and 1850. According to Lawrence Henderson the 'slave trade was the single most important cause of conflict during 400 years of Angola's history.'¹ In a battle for control over the slave trade, old empires crumbled and new ones arose. The abolishment of the Angolan slave trade in the late 1800s resulted in a shift in the economic exports of

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the country. Ivory, beeswax and rubber became hot commodities but only for a relatively short time. Portuguese settlers then focused their attention on agricultural production. The settlers expropriated the finest farm grounds and forced the locals to cultivate them. This resulted in spectacular growth in agricultural production between 1920 and 1960, especially coffee. At the same time diamonds also became an important source of revenue for the Portuguese colonial authority².

The first oil exploration attempts in Angola date back to the early 1900s; until the mid-1950s exploration attempts had been unsuccessful. In 1952 a joint venture between the *Companhia de Comustíveis do Lobito*, created by a group of Belgian investors, and the Belgian oil company Petrofina acquired the exploration rights for the Congo and Kwanza basin. Soon after, in 1955, these companies discovered oil in the Kwanza basin and produced the first barrels of Angolan crude oil. The Portuguese authority collaborated with these two companies to create the *Fina Petróleos de Angola* (Petrangol) in which the three partners owned equal shares. The successful activities of Petrangol also attracted other oil companies to the country. A subsidiary of the United States' (US) oil company Gulf Oil acquired exploration rights for the Cabinda-enclave situated between former Zaire and Congo-Brazzaville.³ In the late 1960s, massive oil reserves were discovered in the shallow territorial waters of Cabinda. Ever since, this province has dominated Angolan oil production.⁴ By 1973, Angolan oil production had increased to 163,000 barrels per day (bpd) and oil became the country's main export product.⁵

After the formal independence of the country in 1974, the Marxist oriented *Movimento Popular de Libertação de Angola* (MPLA) government nationalised the Angolan oil industry. The government created a state oil company, the *Sociedade Nacional de Combustíveis* (Sonangol), which became the exclusive concessionaire for oil exploration and development in the country. Despite its Marxist discourse, the MPLA regime proved very pragmatic in dealing with foreign oil companies; the government did not oust the foreign oil companies operating in the country but instead forced them to collaborate with Sonangol in their upstream activities.⁶ Between 1978 and 1979 seismic studies revealed that important oil reserves could be found in the shallow waters off the Angolan coast. The continental shelf, with the exception of Cabinda, was then divided into thirteen concession blocks that were then awarded to foreign oil companies. From the early 1980s, exploration in these shallow waters began and soon proved very worthwhile. In the 1980s, Angolan oil production tripled from 150,000 bpd in 1980 to almost 500,000 bpd a decade later.

As a result of new deep-water technology, the Angolan oil industry entered a new phase in the 1990s. This new technology allowed oil companies to exploit oil reserves in the deep-water area instead of only in shallow water. The government demarcated seventeen more blocks in the early 1990s and four more in the late 1990s. Drilling in these new blocks proved very successful; between 1990 and 2005 Angolan production doubled. Today, almost 1 million barrels of oil are produced every day in Angola. The country is currently the second largest oil producing country in sub-Saharan Africa after Nigeria. Approximately 90 percent of these barrels are exported to the United States.⁷

The Angolan oil industry is highly attractive to foreign oil companies due to its lack of production restrictions and a high commercial success ratio. In the period between 1997 and 2001 almost 50 percent of all test drills were successful, compared to a world average of only 15 percent. In addition, the investment climate in the Angolan oil industry is very lucrative due to beneficial taxation regimes and relatively low operating costs.⁸ A large number of oil companies have upstream operations in Angola. Although it has stakes in all concessions, Sonangol plays a rather passive role; oil multinationals manage all of the active roles. In total about thirty foreign oil companies operate in the country. The most important ones are Chevron Texaco and Total.

In recent years, not only the daily oil production but also the amount of proven oil reserves has increased dramatically. The discoveries of huge deep-water oil fields in the late 1990s have led to an increase in proven oil reserves of 1.5 billion barrels in 1995 to more than 10 billion barrels in 2002. According to several forecasts, Angolan oil production will increase strongly in the coming years when these newly discovered oil fields come on stream.⁹ The International Monetary Fund, for example, estimates that approximately 759 million barrels will be produced in 2008, which equates to more than 2 million barrels per day.¹⁰

Liberal Peace Theory

Among liberal thinkers there is a strong consensus that trade, democracy, development and peace are closely related and influence each other positively. The idea that trade promotes peace is not new. The classical liberals were convinced that democracy, free trade and peace were strongly intertwined. In the early 17th century Eméric Crucé argued that wars were the result of international misunderstandings and the dominance of a 'warrior class.' He believed expanding trade would limit

war since trade creates both common interests between countries as well as a political class of peaceful and productive citizens.¹¹ A century later Immanuel Kant argued, 'the spirit of commerce sooner or later takes hold of every people, and it cannot exist side by side with war.'¹² Following the ideas of these classical liberals 'liberal peace' theory developed, which argues that (free) trade lowers the risk of military conflicts because these conflicts are detrimental for all countries involved. Since the countries are dependent on each other through trade and financial networks, the benefits of peace outweigh the costs of war. Therefore, countries are interested in the peaceful settlement of conflicts because this allows them to better protect the prosperity resulting from international trade.¹³ A large body of research has supported this line of thought; countries that export more are less involved in wars than other countries.¹⁴

This view implies that multinational companies, including oil companies, contribute significantly to world peace since they promote worldwide trade. The international oil industry portrays its activities as solely positive for all actors involved. The extraction of oil reserves is considered a blessing for the impoverished African continent. According to industry players, oil revenues will transform the Africa's economies into modern market economies and create economic prosperity. This in turn will improve the political situation in these countries; 'oil, more than any of their multitude of resources, will be the fuel that propels Africa's rich yet impoverished nations into the next millennium.'¹⁵

Paradox of Plenty Theory

Following the liberal view, one would expect that high levels of natural resource wealth would transform countries into economically sound and democratic societies. Yet many of the world's poorest and most conflict-ridden states are endowed with large amounts of natural resources. This empirical observation has created a growing body of literature and research that suggests the existence of a 'resource curse.' Slower economic growth characterises countries with substantial natural resources when compared with resource poor countries; they are also more likely to experience armed conflicts. Several studies by Paul Collier and Anke Hoeffler have illustrated that countries that are dependent on the export of natural resources are among the most conflict-ridden countries in the world. The share of primary commodities in a country's export profile is the largest risk factor for the outbreak of civil war.¹⁶ Although oil rich countries are often believed to be an exception in this regard, this

perception does not conform to reality. Many studies have shown that countries that are dependent upon oil production do not perform better than other developing countries and that these countries are among the most conflict-ridden states in the world.¹⁷

In recent years the 'paradox of plenty' theory has received growing attention as a theoretical framework to interpret this phenomenon. This theory builds on the idea of the 'rentier state', as developed by Hussein Mahdavy in the early 1970s, in which national elites' rent-seeking behaviour is considered the prime cause of economic decline in oil rich countries. The basic tenet of this theory is that natural resources as such are neutral in their impact on development; what matters is how national elites manage them. Since governments in oil rich states generally have access to easy money, oil revenues often lead to rent-seeking behaviour and a bias towards unproductive activities instead of encouraging a sense of entrepreneurship. Rather than investing in durable economic projects, the oil revenues are wasted on unprofitable projects and widespread corruption. In these countries, in order to limit opposition from an impoverished population, the ruling elite does not collect income tax. Yet, through such actions, government officials lose an important part of their legitimacy since their authority is no longer based on popular support but instead on the financial rewards stemming from foreign companies operating in the country. Meanwhile, national elites use their monopoly over the distribution of oil revenues to strengthen their grip on the state and block all democratic reforms.¹⁸ This results in a huge gap between the impoverished mass and the small group of national elites who have gained enormous political and economic power. However, the legitimacy of these elites is undermined because it is based on repression and the militarisation of the political system. This political system, which is seriously unstable, will, according to the theory, eventually prove unsustainable. From this perspective, oil revenues are thus seldom a catalyst for the peaceful settlement of conflicts but will, on the contrary, frequently promote a violent struggle or breathe new life into already existing conflicts.

Dependency Theory

The basic tenet of dependency theory is that a structural dependency exists between countries on the core of the world system and those on the periphery as a result of the international division of labour and unequal trade relations. While the core countries produce industrial,

capital-intensive goods, the countries on the periphery mainly produce primary goods. Dependency theorists argue that this international structure allows core countries to appropriate the majority of the economic surplus produced in periphery countries. The capitalist system in industrialised countries thus hampers the economic development of the developing world. Since decolonisation in the 1960s, core countries have not been able to obtain periphery countries' economic surpluses directly. Industrialised countries now need the assistance of national elites who are able to create an investment climate that suits their interests. As a reward for their complicity, these elites receive a part of their national economic surplus from the core countries. The transfer of wealth from the periphery to the core therefore not only exacerbates international inequality but also increases inequality within resource rich developing nations.

Andre Gunder Frank offers a specific explanation within the dependency paradigm for the large number of armed conflicts in Africa.¹⁹ Unlike in other parts of the developing world, most African countries did not have established national elites at the time of decolonisation. Stable relationships between these elites and foreign imperial powers were thus non-existent. This often resulted in a fierce battle for state power as soon as these countries became independent. Since the state is a source of enrichment in these countries, this battle over state power frequently became violent. Furthermore, even if an armed conflict did not arise immediately after independence, the risk of a militarised state and internal conflicts remained high. These risks exist because the population is unsatisfied with a socioeconomic climate in which foreign interests reap high profits with the aid of domestic government.

The paradox of plenty and dependency paradigms clearly resemble each other. Both theories reject the liberal claim that the discovery of natural resources will bring peace to the developing world. Instead, they argue that these societies become prone to armed conflicts since their resource wealth leads to a growing gap between an impoverished mass and a small group of rich political leaders. The main difference between both approaches can be found in the relative importance they attribute to agency and structural factors in explaining the economic underdevelopment of primary commodity exporting countries. While the first approach mainly stresses internal factors that hinder positive economic and political development (especially unproductive 'rent seeking' behaviour), the latter approach focuses on external factors and more specifically on the structural dependency of these countries within the world economic system.

In the following sections I will analyse the different stages of the civil war that raged through Angola for more than four decades.

A War of Independence Running out of Control

The origins of the Angolan civil war had nothing or very little to do with the exploration of the country's oil reserves or other natural resources. According to Tony Hodges the key causal factors for the conflict were the nature of Portuguese colonialism and the emergence of rival nationalist movements.²⁰ The authoritarian character of the Portuguese political system blocked any internal debate on colonialism. Therefore, while other European countries prepared for decolonisation in the mid-1950s, Portugal intended to retain its African territories. The mythical images of colonialism that were dominant in the political discourse and the view that these colonies were integral parts of the country hindered all attempts to find a political solution for the growing nationalist feelings in the colonies. This resulted in an ideological radicalisation of nationalist sentiment and the armed struggle for independence. Three main nationalist movements, all with their roots in different ethnic communities and regions, emerged: the MPLA gained most of its popular support from the Mbundu people, the *União Nacional para a Independência Total de Angola* (UNITA) relied heavily on Ovimbu support, and the Bankongo people mainly supported the *União das Populações de Angola*, which later became the *Frente Nacional de Libertação de Angola* (FNLA).

In 1961 these nationalist movements decided to take up arms against the colonial authority. Yet this uprising was not very successful; these nationalist movements spent more time fighting each other than they did fighting the colonial authority. This power struggle between the different nationalist movements did not diminish in the relatively short decolonisation period (January-November 1975). On the contrary, the agreement to hold the formal declaration of independence in November 1975 initiated a desperate race for state authority between these movements. Several external players became involved in this power struggle and exacerbated the armed struggle. While the Soviet Union and Cuba supported the Marxist oriented MPLA with military aid, the US and South Africa provided military assistance to both UNITA and FNLA. Eventually MPLA forces, supported by Cuban soldiers, gained control over the capital at the time of the formal declaration of independence and proclaimed a people's republic.

The proclamation of a people's republic turned out to be only a short-term victory for the MPLA. In the following decades UNITA proved a powerful foe and remained a constant threat to the government in Luanda. Due to the military and logistical support of South African apartheid regime, UNITA was able to conquer large rural parts of the country in the early 1980s. In this period the two Cold War superpowers largely refrained from involvement in the Angolan conflict. This changed in 1985 when the US reactivated its covert support for UNITA, which immediately led to a renewed Soviet support of the MPLA regime. Since foreign interventions were crucial in the Angolan civil war, it comes as no surprise that the first real attempts for ending this conflict also originated abroad. In the late 1980s the foreign powers decided to withdraw from this expensive conflict. This resulted in the Bicesse Peace Accords of 1991 and elections in 1992²¹. For a short period the future looked bright for Angola, but peace was short lived. UNITA leader Jonas Savimbi was offered a high position in the MPLA regime, but refused as he would not settle for less than absolute state power; and again the conflict restarted.

This time the conflict was very different from earlier stages as natural resource revenues now played a crucial role. During the Cold War period most conflicts were the result of competing ideologies. Today this is no longer the case. After the end of the Cold War, the superpowers withdrew much of their financial and military support from their proxies in the developing world. These regimes and rebel groups thus lost their financial backbone. In order to finance their war efforts, many now started to rely on criminal sources of income, primarily the trade in natural resources. Angola is a classic example of this evolution. In Angola '[t]he ideological differences that first sparked the war came to reside in the dustbin of history, but resource-driven greed and corruption proved to be powerful fuel for its continuation.'²² Although both the MPLA government and UNITA had a long history of exporting natural resources in order to finance their war activities, the loss of Cold War support made the revenues from this trade crucial for financing their war efforts.²³ In the early 1990s the Angolan civil war evolved to what is often called a 'war between oil and diamonds.' The MPLA government used the country's oil wealth to finance its war machine while UNITA used its control over diamond rich areas to finance its rebel activities.

The reliance of the MPLA regime on oil revenues is no coincidence but can be explained by several factors. First there is a geographical explanation; at the time of the superpower withdrawal, the Angolan civil war reached a stalemate in which the MPLA forces controlled the country's urban areas, coastline, the oil rich Cabinda enclave and the offshore oil reserves, while UNITA was in control of much of the diamond rich inland areas of Angola. The dependence of the MPLA on oil exportation and of UNITA on the diamond trade is also strongly correlated with the specific characteristics of these resources. Angolan oil reserves are not only relatively concentrated and located close to the capital Luanda, they are also well protected against possible UNITA attacks. The vast majority of Angolan oil reserves are located offshore, which makes it difficult for rebel groups to take over or even sabotage oil installations. In addition, the oil industry in general, and particularly the offshore oil industry, is a very capital-intensive industry that requires a high level of technology. Only a small number of companies are able to successfully extract large amounts of offshore oil reserves. These companies are generally not inclined to do business with rebel groups because of bad publicity. Angolan oil wealth was thus only available to the MPLA government and proved a real economic sanctuary for the government. Cooperation between the regime and foreign oil companies was very rewarding for both parties. In exchange for a lucrative investment climate and military protection, these oil companies have provided the Angolan government with a secure and abundant stream of oil revenues to finance its war efforts.

These huge oil rents have had far-reaching implications for governance since they financed the development of a system of presidential patronage. Oil revenues not only served security interests but also provided considerable opportunities for self-enrichment. An estimated US\$1.7 billion is unaccounted for in the period between 1997 and 2001.²⁴ The almost exclusive control the office of the presidency exerts over oil revenues has allowed Angolan political leaders to build a clientelist redistribution system, the so-called *Futungo*.²⁵ Those benefiting from *Futungo* are the political and economic elite consisting of military officers, prominent politicians and others who because of marriage or political allegiance receive favours directly from President Dos Santos. The *Futungo* have used the traditional lack of transparency in the international oil industry and the complex triangular relationship between *Sonangol*, the Treasury and the National Bank to consolidate and secure its political power. The activities

of the *Futungo*, however, are not limited to the oil industry; these networks siphon wealth from virtually all trade activities in the country.²⁶

105

UNITA and Diamonds

Since financially benefiting from the country's vast oil reserves was not an option for UNITA, it had to resort to natural resources that are easier to access. Although the rebel group was involved in the trade of several natural resources such as gold, timber and ivory, its core business was without a doubt the diamond trade.²⁷

The diamond trade has been a source of income to UNITA since the end of the 1970s.²⁸ UNITA leaders realised the potential of Angolan diamonds very early on and used the presence of diamonds in UNITA controlled areas to purchase weapons. The weapons market abounded with Soviet military material after the Soviet Union's collapse.²⁹ At first, the rebel group concentrated its raids on already existing mines. Once they took over control of these mines, they robbed and extorted companies and local *garimpeiros* (freelance diggers) operating there. In 1983, UNITA started professionalising its diamond operations, which resulted in rising diamond revenues. This enabled the rebel group to successfully attack more state-owned mines and increase its diamond revenues. While the MPLA government slowly lost its grip on the diamond industry, UNITA extended its diamond activities to a quasi-industrial scale. In the second half of the 1980s UNITA forces conquered the diamond rich Lunda provinces.³⁰ Their proximity to Zaire facilitated diamond mining in these provinces; UNITA diamonds were smuggled out of Angola to Zaire, where they were exchanged for weapons.

The Bicesse Accords in 1991 brought a period of relative peace to the country, which led to an enormous influx of *garimpeiros* and foreign mining companies. In this period Angolan diamond production grew spectacularly and UNITA's financial situation blossomed. This resulted in a temporary shift in military balance. When the fighting resumed in late 1992 the rebel movement's military advantage allowed it to gain control over more diamond rich areas.³¹ UNITA was now in control of almost 90 percent of the export of Angolan diamonds. Between 1992 and 1998 the rebel group earned an estimated US\$3.7 billion in diamond revenues. A string of defeats in 1996 and 1997 lowered UNITA's share in diamond exports to approximately two-thirds. In the following years, UNITA's diamond revenues further declined due to additional territorial losses,

the depletion of existing mines and the (rather limited) impact of U.N. sanctions against UNITA diamonds.³²

The Impact of Oil Revenues on the Conflict

While the origins of the conflict were political in nature, oil revenues had a crucial impact on the scope, intensity and the duration of the conflict. The most obvious impact oil revenues had on the conflict was funding the government's war machine. With the absence of Cold War support and the lack of economic development, military expenditure became almost wholly dependent on the payments of foreign oil companies operating in the country.³³ During the 1990s the government spent more than US\$5 billion on arms purchases.³⁴ Even the British oil company British Petroleum (BP) acknowledges that foreign oil revenues have been used for these purchases.³⁵ In the mid-1990s the government was in urgent need of cash to counter UNITA's growing military might. In this period the government not only used its present oil revenues but also took out very unfavourable oil backed loans to purchase military material, thus mortgaging the nation's future oil revenues.³⁶ Ever since, oil backed loans have been common in Angola.

Oil revenues clearly influenced the duration of the Angolan civil war. The abundant revenues from oil exploration and the diamond trade allowed both the government as well as UNITA to keep their war machines running without much foreign financial, military and logistical support.³⁷ The conflict-prolonging role of oil in Angola became obvious after the failure of the Bicesse Accords; UNITA was then on the verge of military superiority due to its rising diamond revenues. Fear of growing U.S. influence in oil rich west Africa prompted French government officials, with the help of intermediaries, to sell large amounts of military material to the Angolan government.³⁸ This military material later proved crucial for the success of the government's offensive. Without rising oil production and the revenues that financed these arms deals, the Dos Santos regime would probably have lost the war, and Jonas Savimbi would possibly be President of Angola today.

The government's military campaign of 1999 also demonstrates how oil revenues allowed the conflict to escalate. The decline of oil prices in 1998 came at a difficult time for the government. Angolan army troops in The Democratic Republic of the Congo (DRC) and Congo-Brazzaville allowed UNITA to recapture several parts of the country. This time an oil backed loan of US\$575 million and an estimated US\$900 million in

signature bonuses for concessions on ultra-deep-water oil reserve blocks saved the Dos Santos regime. This revenue provided the government with enough fresh funds to purchase new military material in the summer of 1999.³⁹

The capital-intensive fighting that began in the 1970s was only able to continue because of the country's sizeable oil and diamond revenues. Both government forces and rebel troops were equipped with modern military equipment, such as tanks and helicopters; the result was a protracted and bloody war. The secure stream of oil revenues not only provided the MPLA government with the financial means to develop a very powerful army, it also created ample opportunities for corruption. This stream of revenues eventually made war more profitable than peace. For a small number of privileged elites, the conflict helped them to justify economic underdevelopment, massive corruption and the authoritarian political system.⁴⁰ The civil war soon became the perfect excuse for their ongoing political and economic dominance. Since peace threatened the interests of these elites, it was never a real goal. Both sides would only end the conflict if their funding were to run out or if they were able to secure uncontested control of the state. This meant that control over the country's vast oil reserves became the ultimate goal of the Angolan civil war⁴¹

Angolan oil wealth not only financed the armed conflict, it also determined the civil war's outcome and allowed Angola to become an important regional player. How this happened is discussed in the following section.

Angola's Rise to Oil-Financed Regional Power

In the late 1990s the Angolan civil war spilled over into neighbouring countries when Angolan army forces repeatedly intervened in the armed conflicts in the DRC and Congo-Brazzaville. The Dos Santos regime perceived the Kabila uprising against Mobutu and his foreign backers as an opportunity for the destruction of UNITA's military capacity and supply lines in DRC, which at the time was still called Zaire. The uprising in Zaire also allowed the Angolan government to secure its oil installations in Cabinda. The Angolan government therefore decided to send soldiers to Zaire to support Kabila.⁴² Due to its impressive force, these troops played a crucial role in the success of the Kabila uprising.⁴³ In the following months, Angolan government forces were able to destroy several UNITA bases and networks, which led thousands of UNITA fighters

to flee to Cabinda and Congo-Brazzaville.⁴⁴ At that time, Congo-Brazzaville was in the midst of an oil-financed civil war between the militias of president Lissouba and adherents of Sassou-Nguesso.⁴⁵ The Dos Santos regime perceived collaboration between Lissouba and UNITA as a significant threat to its oil installations in Cabinda. Heavily armed Angolan troops soon intervened, which foreign oil companies operating in Congo-Brazzaville appreciated since Angola's actions secured Point Noire, the country's main harbour. Due to this military support, Sassou-Nguesso was able to regain both state power and control over Congo-Brazzaville's oil wealth. In the mean time a new armed conflict had erupted in the DRC. In contrast to Rwanda and Uganda, Angola remained loyal to Kabila, and the MPLA's heavy artillery and impressive air force played a crucial role in defending key areas of the DRC.⁴⁶ Again, Angolan oil interests motivated this military intervention. The government feared there was a relationship between UNITA and the Rwandan regime; therefore, the Angolan government perceived the deployment of Rwandan troops in the Bas-Congo, close to the Cabinda-enclave, as a serious security threat. With the support of Angolan troops, Kabila was able to foil an attempt to overthrow him.⁴⁷

Angolan army troops' intervention and continued presence in the DRC and Congo-Brazzaville greatly benefited the Dos Santos regime since the military's actions blocked UNITA's supply lines of fuel, of munitions and of spare parts, which contributed significantly to the destruction of UNITA's conventional military capacity.⁴⁸ By intervening in the DRC and Congo-Brazzaville, the Dos Santos regime not only secured its own oil revenues but also obstructed UNITA's diamond trade opportunities. The increased oil revenues available to the Angolan government and the steep decline in UNITA's diamond revenues created a major imbalance in their relative strength by the summer of 2000⁴⁹; this eventually led to the downfall of UNITA and the end of the Angolan civil war. Oil revenues thus not only structured the armed conflict but also ultimately decided its outcome.

Several observers have argued that the Dos Santos regime used its oil-financed war machine to gain *de facto* control over a large part of the Central African oil reserves. The Angolan government not only secured its own oil installations, but Kabila and Sassou-Nguesso also rewarded the government with oil interests in the DRC and Congo-Brazzaville respectively.⁵⁰ By intervening in the DRC and Congo-Brazzaville the Dos Santos regime discovered its potential power within the region and created a growing imperialist appetite.⁵¹ According to the International Crisis Group, these military interventions transformed the Angolan army into a regional 'police force.' The Dos Santos regime has the power to

influence politics in several countries in the Central African region. The maintenance of its strong oil-financed military is crucial for its regional ambitions. Given that the Dos Santos regime will protect its oil interests in the region at all costs, and if possible even enlarge them, it can be expected that the regime will continue to flex its muscles in the region.

Neither oil companies nor other important regional players have contested Angola's evolution into a regional power. Today, the West African upstream oil industry has a rather diversified demand side. Yet this might change in the near future; in an attempt to become less reliant on Middle East oil, the US is trying to extend its influence in West Africa. Oil has become a matter of national security, and the US is pursuing aggressive oil diplomacy in the region. It is projected that by 2015 the share of West African oil imports in the US will increase from 17 percent to 25 percent.⁵² Like the US, China is drawing on the full resources of the state to secure oil supplies that are crucial for its industrialisation. The three large state-owned oil companies are increasingly investing in African oil fields, including those in Angola.⁵³ Fear of losing lucrative and important concessions have led oil companies and their home governments to allow Angola to use its military might to become one of most important players in Central Africa, despite the consequences for the impoverished masses in the country.

Conclusion

It is obvious that the oil rich Angolan waters had an important impact on the country's bloody civil war. This impact has clearly been negative; the oil industry's presence has contributed significantly to the duration and intensity of the conflict. This means that the optimistic liberal view that the exploration of the Angola oil fields would lead to an economically sound, democratic and peaceful society has to be reconsidered. Instead of creating peace, oil resources have only exacerbated conflict. Both the paradox of the plenty and dependency theory offer a partial explanation for the conflict-promoting role of oil in Angola. It is clear that the Angolan civil war and the country's recent ascent to regional power cannot fully be understood if one ignores the importance of Angolan oil in the world oil industry and the geostrategic struggle between (emerging) superpowers. Angola has used its oil-financed war machine to become what Andre Gunder Frank calls a 'sub-imperialist.' Still, dependency theory best accounts for the origin of the armed conflict. No Angolan elites were established at the time of independence. This led to a violent

struggle for state power, which later became synonymous with control over the country's vast oil reserves. As is the case with most structural theories, by stressing external structures, dependency theory ignores the possibility of agency. After the Bicesse Peace Accords, the UNITA leader Savimbi had the opportunity to be incorporated in the neo-patrimonial networks of the *Futungo*, but instead he chose to resume armed struggle for absolute power. What is important to remember is that while oil induced a conflict that was detrimental for the country as a whole, oil also offered lucrative opportunities to a small group of privileged national elites and for the oil companies operating within the country. Both the national elite and foreign oil companies considered Angolan oil reserves to be crucial given the ever-increasing global demand for oil.

Notes

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AN INTERVIEW WITH FAREED MOHAMEDI

Fareed Mohamedi is a Partner of PFC Energy, a Washington DC-based energy consultancy. He is also Head of the Country Strategies Group, which houses PFC Energy's expertise in country risk and petroleum sector policy. In an interview with Nahid Siamdoust, he offers a perspective from within the energy industry.

Q: Considering the limited nature of oil resources, as well as a highly volatile Gulf region that provides most of the world's oil, are there any signs of an orchestrated action away from oil as the single most important source of energy?

Fareed Mohamedi: No, we're not really seeing a move away from oil yet, although that issue has started to become more important in different parts of the world. The Europeans are more advanced in recognising the need to diversify their energy sources and make their countries immune from the growing shortage of oil and all the geostrategic ramifications of that.

In the United States (US) that is coming into the politicians' agenda, but they're not really serious about it. And then there are the emerging countries, like China and India, that are very nervous and feel that they are at a great disadvantage in terms of oil and gas—and feel that countries like Japan, Russia and the US have what they call 'strategic envy' and that these countries will use energy as a means to slow down the rise of India and China onto the global strategic level. So there is an enormous amount of unease in the world and insecurity about energy, but it is not translated into 'we've got to go and find alternatives.'

Q: Why has there been so little global progress in diversifying energy sources?

FM: Well, one is the political economy of individual countries. In the US it's both a combination of ideology and of structural factors in how Americans live. Ideologically, the politicians who run this country believe that the market will solve all problems.

In China, it's cost; oil is still the cheapest energy source. The second thing is that their transport needs are exploding and there is no good alternative, similarly in India. In the emerging countries it is simply difficult to grow and adjust at the same time.

An Interview with Fareed Mohamedi, 'Oil in Geopolitics,'

STAIR 2, No 1, (2006): 113-119.

Europe has really attacked oil demand, and it does it through high taxes. In the UK you pay an enormous amount of money for just a litre of gasoline, which in the US we just don't pay because we're not taxed at all.

Q: There are a lot of theories about the upcoming peak oil—the moment at which humanity reaches its highest point of oil production—and that the foreseeable depletion of oil resources will profoundly alter the way we live. Some even predict civilisational collapse.

FM: Well, our company actually weighed into that debate several years ago, and we basically believe in issues related to peak oil, but I don't think we're going to have the end of civilisation unfolding. I think we will adapt, but there won't be a silver bullet that will solve the problem. There will be many little things that we'll utilise to diversify away from oil. Nuclear is back, and gas and hydro-electric will be important.

Q: What could the advent of peak oil mean for producing countries, especially in the Middle East?

FM: It greatly enhances their geostrategic power. Saudi Arabia is at the centre of it all. Once Iraq's political system recovers, it will occupy a very special position in the world of oil, and Iran and Qatar will be very important in terms of gas because they have such huge resources, as will Russia.

Q: How does oil play into U.S.–Saudi relations?

A: Well, there were dreams in Washington after 9/11 that the US could depend less on the Saudis. There were even some neoconservatives who talked about diminishing Saudi importance by making Iraq the new Saudi Arabia because they see it as the true rogue state in the Middle East. As you can see, none of this has happened, and the Saudis are looking pretty good, mainly due to U.S. failure in Iraq.

Q: Soon after George W. Bush took office, a commissioned report assessed that the US faces the most serious energy shortage crisis since the oil embargoes of the 1970s. To what extent is the appropriation of the world's oil driving U.S. foreign policy?

FM: I am in the camp that has always disagreed with those who say U.S. foreign policy is driven by oil or that the US invaded Iraq because

of oil. I've never seen it that way. I think the invasion was for many other reasons, with oil being a subset of a much bigger argument. The Bush administration is much more driven by ideology and by power issues, meaning maintaining superpower status. They would argue that they're willing to sacrifice on some economic issues if it furthers their geopolitical power. The one key example of that is that they knew that, if they invaded Iraq, the oil market would be blazing hot and oil prices would go way up.

Q: *But it seems that the US imagined the invasion of Iraq differently, calculating that at least in the medium to long-term, their control over Iraq would give them a strategic advantage over oil.*

FM: I think you're right. Having said that, many of us warned them that this could go horribly wrong. I don't think they thought in terms of 'our corporations are going to go grab that oil.' I mean, I didn't see the oil component to this invasion, and I think oil and gas doesn't really influence U.S. foreign policy that much. Certainly, the oil industry has very little clout in Washington.

Q: *The oil industry?*

FM: It's a huge myth out there in the world—huge—that the U.S. government policy is driven by the oil industry. It is an absolute myth that Dick Cheney is an oilman. Cheney is a career politician who, in days of political exile, went off and worked for an oil services company. As for George Bush, I don't think the industry recognises him as a very successful oilman, more like a baseball team owner.

Q: *You can't deny the importance of oil for U.S. economic and military power. I would imagine that oil interests are an integral part of U.S. interests.*

FM: If oil interests were such a large part of U.S. interests, then why has U.S. foreign policy—in the Clinton and Bush Administrations—not taken into account the fundamental need of oil companies, namely, gaining access to oil reserves? Both Clinton and Bush have blocked or complicated access to foreign oil reserves. Clinton stopped U.S. companies from going to Iran through the Iran-Libya Sanctions Act, which the oil industry opposed heavily, but it passed in the Senate 98 to 0. That shows that the oil companies couldn't even get one vote and Bush has continued that policy. Or, rather than invading Iraq, the oil industry would have been very happy negotiating with the dictator to gain access to Iraqi

oil. The oil industry has very little influence in this town. In the 1960s and 1970s, they made Middle Eastern policy, but they have now been replaced by the Israeli lobby.

Q: Some writers have argued that present U.S. activism in the Middle East should be understood as a part of a wider strategic manoeuvre against potential rivals, such as China and India. What do think about this?

FM: The Chinese and Indians think that, but I say it's absolutely not true. The US went to Iraq to reorganise the Middle East, and in great part, to make it a 'safer' place for Israel. Do not discount and do not underestimate how much support for Israel in this country plays a role in shaping Middle East foreign policy, especially in this administration, but in the previous one too. Oil has very little to do with it.

Q: Let's look at the other side of the coin. What is the impact of U.S. foreign policy on the international oil market?

FM: The US action in the Middle East and its negative relations with Chavez are seen as the most destabilising elements in the world oil market.

Q: What is the challenge posed by China's ever-growing economy to the world oil market and, by extension, to world economy?

FM: China has become a big consumer of oil and so it is going to be competing more and more for some of those barrels of oil, and in turn, given the perception that there is not enough capacity out there, the price of oil will continue to rise. So, there is a fear in the west, and by west we also mean Japan, that China will be straining oil and gas resources. The Chinese fear that they will be prevented from getting at those resources. I think both sides are exaggerating their fears. The fact that most of the oil is controlled by nationalised oil companies means that there will always be an interest by oil-producing countries to make a lot of money.

Q: In terms of limited energy resources, is there enough room for more than one big economic and military superpower?

FM: I think there will be a strain on all resources, especially if the Chinese consumers start consuming like those in the west... and that means that we must do serious conservation, and find alternatives. That is the challenge of the human race in the next fifty years. You can argue

that this scenario sets out a potential for resource wars. After all, the challenge at the end of the 19th century for the European empires was to absorb Germany and Japan into the world economy. They didn't do it peacefully, and it all went horribly wrong. So there is the possibility that if the world does not adapt and absorb China and India that history will repeat itself.

Q: *Is there any attempt by China to establish a military presence in the Gulf because of oil?*

FM: The one country that would possibly allow that is Iran. But the US military posture in the Middle East is huge, and the Chinese are very aware that the Gulf is an American lake which they do not want to come in and disrupt. In fact, in many conversations that I've had with officials in Washington over oil, they've made it clear that if China tried to establish a base in the Gulf, they would go all out to prevent that. Moreover, the Chinese don't want to engage in potentially destructive competition with the US.

Q: *You mentioned Iran. What role is oil playing in Iran's policy calculations over its nuclear program? For instance, is oil such a strong weapon that Iran is able to pursue its own politics regardless of U.S. threats?*

FM: If Iran thinks that the fear in the US of higher oil prices will deter the US from attacking Iran, it is seriously mistaken. Oil is not influencing the U.S. policy on this issue. The US is focused on Iran's nuclear program, and it wants to stop it. The US is obsessed with isolating Iran partly because it sees Iran as a threat to Israel and partly because it sees Iran as a threat to its own interests in the region. For these reasons, it will go to any length, military and economic, to make sure that Iran is isolated.

My opinion is that the US should encourage Iran to connect to all these markets, which would create economic incentives and give it a greater stake in peace and stability in the region. But the US is so obsessed with its very narrow foreign policy that it has become an incredibly disruptive force in the region—politically, economically, and in terms of energy.

Q: *Would you say that China and Russia might refrain from giving full support to the US-EU alliance on Iran's nuclear program in part due to their large oil and gas interests in Iran?*

FM: The Chinese have certain principles in dealing with Iran's nuclear program. One is that they do not interfere in the internal politics of sovereign states. Another principle is they do not want an interruption in the flow of oil out of the Gulf, so they don't want the US to go bomb Iran's export facilities. And the Chinese are definitely interested in investing in Iran's oil and gas fields, partly because Iran is independent of the United States, so from an energy security point of view, given China's fear that the US will control the supply of oil and gas in case of a conflict, Iran is actually a reliable ally. Also, oil, and especially gas, is in abundance in Iran, so getting access to it would help solve some of China's resource needs. However, China is also concerned with nuclear proliferation and would oppose Iran if it built nuclear weapons capability.

Q: *And Russia?*

FM: I think Russian foreign policy is less driven by oil and more by its aspirations to remain relevant geopolitically.

Q: *Moving West from China, what role are the Central Asian republics playing in all of this? Do big oil-consuming nations increasingly look to them in terms of the future of oil and gas?*

FM: Well, China certainly looks at Central Asia as a very important source for its oil and gas needs. And it has tried very hard to get access to those resources. Firstly, it is an alternative to the Middle East. Secondly, it's right there, next door. Thirdly, it has abundant resources.

The US would like these countries to develop their resources and to export them into the world market. More resources available would enhance supply diversity. But they would like to ensure that that oil and gas does not flow through Iran. That is a very important part of U.S. diplomacy in the region. So, for example, they promoted an oil pipeline out of Azerbaijan that totally circumvented Iran and went out through Turkey to the Mediterranean. Given where the ultimate market is for new crude oil, namely Asia, oil should be going through Iran to the Persian Gulf and then onto Asia. To some extent, the Azerbaijanis are penalised for their oil going to the Mediterranean because it's a very crowded market, and they have to take a discount. Similarly, the US offered this huge nuclear deal to India with the condition that it pull away from the Iran-India gas pipeline.

Q: *Is U.S. isolation of Iran in effect detrimental for the world oil market, and how are other powers responding to this?*

FM: The Iran Libya Sanctions Act has to some extent reduced foreign investment in the Iranian oil and gas sector. Partly because of this Iranian oil and gas supplies have not risen to their potential levels. In that sense U.S. policies have to some degree contributed to higher oil prices.

The response of other countries to the US policies have been mixed. Chinese companies have been undeterred by the US stance. European companies sought the help of the EU to block the extraterritorial reach of the International Law Students Association (ILSA) and successfully got that support. But what has deterred some European companies from going full throttle in Iran has been the potential threat of legal action against their extensive holdings in the US.

Q: *Sitting in Washington, do you see any tendencies at all for possible changes in U.S. foreign policy toward Iran?*

FM: No, both sides, Republicans and Democrats, are obsessed with isolating Iran. For the Democrats, the Islamic Republic is an unhappy memory of hostages and foreign policy failures. And Iran's current illiberal president, with his views on Israel and the Holocaust, confirms that doing business with Tehran is unpalatable. Plus, on the domestic front it's risky to show softness to 'terrorists.' For the Republicans, Iran is a threat to the US in Iraq and the Gulf and a mortal enemy of Israel. Within this administration there is a strong sentiment that the only way you deal with opponents of the US is through violence. They say violence is the only language countries like Iran understand. So, unless there is a fundamental change in Iran in the near future, U.S. policy is unlikely to fundamentally change. And by the way, oil plays a very small role in all of this.

Valerie Marcel & John V. Mitchell. *Oil Titans: National Oil Companies in the Middle East*.

Washington DC: Brookings Institution, 2006. 256 pp. \$11.99 (pbk).
ISBN 0815754736.

CHRISTINE A. TELYAN (Cambridge Energy Research Associates)

The national oil companies of Saudi Arabia, Kuwait, Iran, Algeria and Abu Dhabi are global and domestic titans. They hold half of the world's known oil and gas reserves and are economic pillars within their own countries. But looking to the future, how will these companies adapt to domestic population booms, rising levels of unemployment and, at some point, a plateau in oil production in the Middle East? As societal and demographic shifts unfold, how will national priorities affect commercial ones? With whom will the national oil companies partner and in what ways? These are the questions that motivate Valerie Marcel's sociological study of five companies that shape the economic and social landscape of the Middle East: Saudi Aramco, Kuwait Petroleum Corporation, the National Iranian Oil Company, Sonatrach (of Algeria), and the Abu Dhabi National Oil Company.

More than a series of case studies, *Oil Titans: National Oil Companies in the Middle East* draws upon over a hundred interviews with company management and government officials to shed light on each national oil company's complex relationship with the state, society and the international oil industry. Marcel's text focuses on the companies more than the home countries and as such does not engage with the theoretical literature on resource nationalism and rentier states. Instead, the author treats sovereignty over resources as a point of history and macroeconomic dependence on oil exports as a point of fact—assumptions that sensibly limit the scope of Marcel's work. Well-researched, current and focused, *Oil Titans* is an important guide to the identity, institutions, and operations of the five companies, the titans.

The text begins with a brief history of the modern Middle East as it relates to the formation of the five national oil companies. Marcel argues that the process of decolonisation has influenced the relationships between national oil companies and their erstwhile colonisers-cum-concessionaries. The lens of history also helps readers view the

kaleidoscopic relationships between national oil companies and their governments. The author concludes that, albeit to a lesser extent than in decades past, each national oil company still serves as an engine of domestic economic growth, providing revenues to the state and employment to the expanding labour force.

The opening chapters discussing history and macroeconomics put in context Marcel's examination of the national oil companies' strategic position within the oil industry. The author tells us that these companies' key concerns include financing new projects, handling mature reservoirs and timing the development of productive capacity. At the same time, vertical integration and internationalisation are among the companies' major priorities, as they endeavor to diversify their asset base, move down the value chain, develop new technology, maximise returns and reduce their governments' tax takes. These objectives inspire the national oil companies to form foreign partnerships, particularly with the international oil companies that can offer technological advice and capital. The international oil companies tend to welcome such collaboration as they constantly need to replace the hydrocarbon reserves that they extract and therefore, deplete.

As Marcel points out, however, a number of obstacles challenge this apparent symbiosis. For instance, national oil companies may face domestic political opposition to partnering with a foreign oil company that holds a notion of 'corporate social responsibility' that their citizens deem inadequate. Likewise, international oil companies may demand stronger institutional and legal frameworks than the national oil companies can provide. Moreover, both national and international oil companies may perceive greater social or financial opportunities in competition than in cooperation. Nevertheless, despite the many potential sources of disagreement, Marcel rightly recognises the great interest on both sides to find agreement. She makes the important caveat, however, that even as the national oil companies 'internationalise' their operations, they will not come to fit the mold of today's international oil companies. Cultural, institutional and social priorities will continue to influence the former and distinguish them from the latter.

Despite Marcel's intention at the outset not 'to set the national oil companies of the Middle East and North Africa apart from their peers, *Oil Titans* does distinguish the titans from other national oil companies. Unlike the partly-privatised Statoil of Norway and Petrobras of Brazil, for instance, the titans are all wholly stated-owned. Furthermore, unlike Malaysia's Petronas, which treats oil as a fungible commodity (that is, one that finds equal value on domestic and world markets), the titans privilege the domestic market, in which oil is sold at a heavily

discounted price. Finally, unlike the Chinese national oil companies, which have assertively pursued oil and gas assets abroad, the titans' resources are almost exclusively domestic. These contrasts appropriately demonstrate that 'national oil companies' are as distinct from one another as they are from the international oil companies. The book underscores the difficulty in reducing national oil companies to a single business model or company type.

Marcel's volume is enriched by a postscript by fellow Chatham House scholar John Mitchell, who steps back from the discussion of individual companies to address future consequences of the rentier model for the countries' economies. The text would have profited from a similar discussion of the political trajectory of these countries under different scenarios. That said, *Oil Titans* is a book about the five companies and does not stray too far from its scope. In this, Marcel is prudent rather than presumptive, deferring to the company and governmental perspectives that, in the end, are the text's greatest assets.

Lutz Kleveman. *The New Great Game:
Blood and Oil in Central Asia.*

123

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ISBN 0802141722.

SHEENA CHESTNUT (St Antony's College, University of Oxford)

In 1898, the viceroy of India, Lord George Nathaniel Curzon, described the Central Asian countries as 'the pieces on a chessboard upon which is being played out a game for the dominion of the world.'¹ While in the late nineteenth century the Russian and British empires jockeyed for access to India, today multiple great powers compete for access to the region's oil and gas reserves—some of the world's largest. Kleveman's account of this 'New Great Game' chronicles his journey through the Caucasus, Central Asian states, Russia, China and Iran and explores the pipeline politics that form the nexus of the region's energy concerns.²

Kleveman refers to oil as 'the devil's tears,' and a central thesis of his book is 'that the sudden Caspian oil boom has been more of a curse than a blessing for the local people.'³ Through numerous interviews across the region, he links instability to the intervention of resource-motivated great powers and the aggrandizement of self-interested oil elites willing to play great powers off each other for economic and political gain.

The strength of Kleveman's book is its scope and style. In the sparsely populated general literature on Central Asia, his work fills an important niche, drawing on a clear and lively command of national and regional histories. Few people have accomplished the diversity or level of interviews he has reached in his extensive travels, and his incisive observations add color to a variety of seldom-traveled destinations.

The book is less enlightening, however, for those seeking to understand the complexity of fragmentation and instability in the region, which Kleveman shortchanges by viewing primarily through the lens of oil. The chapter on Georgia, for example, draws heavily on the Abkhazian perspective with little elsewhere in the book to balance its anti-Russian bent. Similarly, Kleveman's failure to interrogate the identity politics of the Kazakh- and Kyrgyz-bordering regions of China's Xinjiang province is disturbingly unsophisticated. Throughout the book, Kleveman's tendency simply to present interviewees' often clichéd positions, rather than probe or challenge them, undercuts the value of the book's interviews. These oversimplifications and omissions of context do a disservice to general interest as well as academic readers.

The New Great Game is therefore unsurprising in its conclusions, central to which is the belief that the 'war on terror' is a pretext for extending and defending the United States' (US) energy interests in the Caspian and Central Asia; the book is less convincing than polemic in its defense of such a claim. Although he is aware of the strategic motivations for US, Russian, Chinese, and Iranian attitudes towards the Caspian and towards each other, Kleveman all too often reduces these interests and intentions to simple economic calculus. Geopolitics in his book is primarily 'energy imperialism,' and the 'immoral opportunism' of U.S. cooperation with regional dictators reaches its apotheosis in the invasion of Iraq, which Kleveman assumes is 'the latest war of the new Great Game over oil,' rather than a costly mistake made, however misguided, in the name of national security.⁴ While this assertion is a belief many may share, Kleveman does a disservice to its disciples by accepting the premise without question. The resulting predictions with which he concludes—including civil and interstate energy wars, price shocks, and refugee floods—must be regarded with skepticism, even though few would challenge his recommendation for alternative energy development.

Ultimately, therefore, Kleveman's account of the region is an entertaining travelogue of considerable breadth, achieved at the expense of depth and complexity. Other sources, a few of which figure on his (distressingly short) bibliography, might be drier reading but would more successfully elucidate Central Asia,⁵ the geopolitics of oil⁶ and the confluence of the two.⁷ The problem with *The New Great Game* is that it is engaging enough to be popular but not substantive enough to truly educate.

Notes

¹ Lutz Kleveman, *The New Great Game: Blood and Oil in Central Asia* (New York: Grove Press, 2003), 3. Kleveman cites Ahmed Rashid, *Taliban: Militant Islam, Oil, and Fundamentalism in Central Asia* (New York: Yale Nofa Bene, 2000), 145.

² Kleveman credits this term to Rashid.

³ Kleveman, *The New Great Game*, 269.

⁴ *Ibid.*, 257-8.

⁵ See Olivier Roy, *The New Central Asia: The Creation of Nations* (London: IB Tauris, 2001).

⁶ See Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York, NY: Simon and Schuster, 1992).

⁷ See the November 2005 issue of 'Energy and Security,' *The China and Eurasia Forum Quarterly* 3, no. 3 (2005).

David Goodstein.
Out of Gas: The End of the Age of Oil.

New York: W.W. Norton & Company, 2004. 128 pp. £8.99 (pbk).
 ISBN 0-393-05857-3.

BRUCE M. EVERETT (The Fletcher School, Tufts University)

David Goodstein, vice provost at the California Institute of Technology and an eminent physicist, warns us of an impending energy catastrophe in his slim volume *Out of Gas: The End of the Age of Oil*.

His book has two parts. In the first (chapters two through four), Professor Goodstein applies his technical expertise to the history and physics of energy, offering an exceptional plain-language overview of the science underlying our use of fossil, nuclear and solar energy. For anyone interested in energy but lacking technical training, this section alone is worth the price of the book.

In the second part (chapters one and five), Dr. Goodstein offers his view of the future and quickly runs aground. Dr. Goodstein's first premise is Hubbert's Peak, a controversial statistical analysis developed in the late 1940s by geophysicist M. King Hubbert, that concludes world oil production will peak when half the total resource has been extracted. Hubbert's Peak advocates believe that such a peak is imminent and will be followed by a rapid decline in global oil output. Second, Goodstein sees petroleum as so essential to industrial society that dire consequences must follow the impending output decline. Finally, he argues that no technology on the horizon is capable of replacing oil over the abrupt transition between Hubbert's peak and disaster. He concludes that without a radical restructuring of society, civilisation will come to an end.

The primary failing of this argument is not bad science but bad economics. In my experience, most supporters of the Hubbert's Peak are scientists, whereas most opponents are economists. Scientists observe that historical oil discovery rates have been rather constant, which translates statistically into a bell curve with a predictable peak. Economists, however, note that oil prices have been relatively flat at about US\$20 per barrel (in US\$2005) for the last hundred years. Although there have been spikes (1973-74 and 1979-80), prices quickly returned to their previous levels. We do not know if oil prices will remain at US\$50 to US\$60 per barrel. We do know that the price shocks of the 1970s generated profound changes in how we produce and use energy. Persistent US\$50 per barrel oil prices may lead us into a new world of additional oil discoveries and the development of unconventional hydrocarbon sources

in which Hubbert's statistical conclusions no longer hold. Dr. Goodstein is correct that oil supply cannot increase every year until the last drop has been refined. There is, however, no geological, thermodynamic or economic reason the peak must occur when half the oil has been extracted, as opposed to, say, 60 or 70 percent.

As a consequence of Hubbert's Peak, Dr. Goodstein sees continued growth in oil demand of a few percent annually, coupled with a post-peak decline of a few percent annually in oil supply, creating a gap of 5 percent or so each year. The initial inconveniences of long gasoline queues would quickly deteriorate into conflict and war as we compete for increasingly scarce resources. Fortunately, economies do not work this way. Supply always equals demand as long as prices are free to move. There is no 'gap.' The gasoline queue experience in the United States in the 1970s was entirely a function of government price controls, not of any physical shortage. If there was clear evidence that global oil reserves were insufficient to support anticipated demand prices would rise and adjustments would begin. Dr Goodstein's argument rests on the presumption that this transition would be too short to manage. Historically, however, free market economies have proven to be extraordinarily resilient.

Finally, Dr. Goodstein examines the potential of alternative energy sources to fill his imaginary supply and demand gap. He concludes that the fossil fuel options (unconventional oil, natural gas and coal) can at best postpone the inevitable for a few decades. Given time, however, societies change in very fundamental ways. From a vantage point of 1900, for example, could we really have foreseen the energy world of today? By 2100, we will surely be using energy in ways that are unimaginable today, relying on energy supply technologies that we have not yet even imagined. It is a conceit of our modern analytical mindset to believe we can see clearly a hundred years into the future.

In essence, the author is addressing a controversy that has been raging in western society for nearly 200 years. Do we trust in our free market institutions to see us through an unpredictable future, or do we resort to centralised planning to save us from ourselves?

Dr Goodstein has made an excellent argument for the study of science as a key element of policymaking. He has unintentionally made an equally compelling case for the study of economics.